Google Inc.
Form 10-Q
May 12, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008

OR

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

Commission file number: 000-50726

Google Inc.

(Exact name of registrant as specified in its charter)

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

1600 Amphitheatre Parkway

Mountain View, CA 94043

(Address of principal executive offices)

(Zip Code)

(650) 253-0000

(Registrant s telephone number, including area code)

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

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

Large accelerated filer x Accelerated filer ¨

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

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

At April 30, 2008, there were 238,581,338 shares of Google s Class A common stock outstanding and 75,511,505 shares of Google s Class B common stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GOOGLE INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value per share)

	As of December 31, 2007	As of March 31, 2008 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 6,081,593	$ 6,519,749
Marketable securities	8,137,020	5,614,759
Accounts receivable, net of allowance of $32,887 and $50,278	2,162,521	2,560,909
Deferred income taxes, net	68,538	71,722
Income taxes receivable	145,253	
Prepaid revenue share, expenses and other assets	694,213	697,792
Total current assets	17,289,138	15,464,931
Prepaid revenue share, expenses and other assets, non-current	168,530	190,402
Deferred income taxes, net, non-current	33,219	155,588
Non-marketable equity securities	1,059,694	1,056,966
Property and equipment, net	4,039,261	4,741,724
Intangible assets, net	446,596	1,203,972
Goodwill	2,299,368	4,791,399
Total assets	$ 25,335,806	$ 27,604,982
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 282,106	$ 358,122
Accrued compensation and benefits	588,390	458,188
Accrued expenses and other current liabilities	465,032	746,905
Accrued revenue share	522,001	525,764
Deferred revenue	178,073	194,066
Income taxes payable		177,430
Total current liabilities	2,035,602	2,460,475
Deferred revenue, non-current	30,249	31,748
Income taxes payable, non-current	478,372	633,022
Other long-term liabilities	101,904	142,202
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: 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 313,724 (Class A 238,142, Class B 75,582) and par value of $314 (Class A $238, Class B $76) shares issued and outstanding, excluding 361 (Class A 336, Class B 25) and 228 (Class A 215, Class B 13) shares subject to repurchase at December 31, 2007 and	313	314

March 31, 2008

Additional paid-in capital	13,241,221	13,561,948
Accumulated other comprehensive income	113,373	133,415
Retained earnings	9,334,772	10,641,858
Total stockholders equity	22,689,679	24,337,535
Total liabilities and stockholders equity	$ 25,335,806	$ 27,604,982

See accompanying notes.

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GOOGLE INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
	(unaudited)	
Revenues	$ 3,663,971	$ 5,186,043
Costs and expenses:		
Cost of revenues (including stock-based compensation expense of $4,389 and $9,148)	1,470,426	2,110,536
Research and development (including stock-based compensation expense of $120,787 and $193,800)	408,384	673,069
Sales and marketing (including stock-based compensation expense of $27,250 and $42,576)	302,552	446,898
General and administrative (including stock-based compensation expense of $31,440 and $35,255)	261,400	409,305
Total costs and expenses	2,442,762	3,639,808
Income from operations	1,221,209	1,546,235
Interest income and other, net	130,728	167,343
Income before income taxes	1,351,937	1,713,578
Provision for income taxes	349,775	406,492
Net income	$ 1,002,162	$ 1,307,086
Net income per share of Class A and Class B common stock:		
Basic	$ 3.24	$ 4.17
Diluted	$ 3.18	$ 4.12

See accompanying notes.

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GOOGLE INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
	(unaudited)	
Operating activities		
Net income	$ 1,002,162	$ 1,307,086
Adjustments:		
Depreciation and amortization of property and equipment	170,289	280,564
Amortization of intangibles and other	34,703	55,960
Stock-based compensation	183,866	280,779
Excess tax benefits from stock-based award activity	(74,084)	(51,101)
Deferred income taxes	(61,402)	(38,214)
Other, net	(6,386)	(44,903)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(153,562)	(223,493)
Income taxes, net	399,104	438,175
Prepaid revenue share, expenses and other assets	(185,478)	(41,584)
Accounts payable	(29,256)	53,784
Accrued expenses and other liabilities	(139,886)	(234,277)
Accrued revenue share	77,864	(10,124)
Deferred revenue	1,659	6,794
Net cash provided by operating activities	1,219,593	1,779,446
Investing activities		
Purchases of property and equipment	(596,893)	(841,597)
Purchases of marketable securities	(5,225,160)	(2,819,512)
Maturities and sales of marketable securities	5,079,364	5,379,228
Acquisitions, net of cash acquired, and purchases of intangible and other assets	(34,441)	(3,125,113)
Net cash used in investing activities	(777,130)	(1,406,994)
Financing activities		
Net proceeds (payments) related to stock-based award activity	14,426	(22,445)
Excess tax benefits from stock-based award activity	74,084	51,101
Net cash provided by financing activities	88,510	28,656
Effect of exchange rate changes on cash and cash equivalents	5,696	37,048
Net increase in cash and cash equivalents	536,669	438,156
Cash and cash equivalents at beginning of year	3,544,671	6,081,593
Cash and cash equivalents at end of period	$ 4,081,340	$ 6,519,749
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 342	$ 387

Cash paid for income taxes	$ 12,774	$ 12,091

See accompanying notes.

GOOGLE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Nature of Operations

We were incorporated in California in September 1998. We were re-incorporated in the State of Delaware in August 2003. We 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.

Unaudited Interim Financial Information

The accompanying Consolidated Balance Sheet as of March 31, 2008, the Consolidated Statements of Income for the three months ended March 31, 2007 and 2008, and the Consolidated Statements of Cash Flows for the three months ended March 31, 2007 and 2008 are unaudited. These unaudited interim Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles. In our opinion, the unaudited interim Consolidated Financial Statements include all adjustments of a normal recurring nature necessary for the fair presentation of our financial position as of March 31, 2008, our results of operations for the three months ended March 31, 2007 and 2008, and our cash flows for the three months ended March 31, 2007 and 2008. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

These unaudited interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes included in our 2007 Annual Report on Form 10-K filed on February 15, 2008.

Use of Estimates

The preparation of interim 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 accounts receivable, bad debt and sales allowances, fair values of marketable and non-marketable securities, fair values of prepaid revenue share, intangible assets and goodwill, useful lives of intangible assets and 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.

Effect of Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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. We are currently evaluating the potential impact of the adoption of SFAS 141R on our consolidated financial position, results of operations and cash flows.

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 are currently evaluating the potential impact of the adoption of SFAS 160 on our consolidated financial position, results of operations and cash flows.

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In February 2008, the FASB issued Financial Staff Positions (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 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 FAS 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. FSP FAS 157-2 is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of those provisions of SFAS 157, for which effectiveness was delayed by FSP SFAS 157-2, on our consolidated financial position and results of operations.

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Note 2. Net Income per Share of Class A and Class B common stock

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

	For the Three Months Ended March 31,			
	2007		2008	
	(unaudited)			
	Class A	Class B	Class A	Class B
Basic net income per share:				
Numerator:				
Allocation of undistributed earnings	$ 740,449	$ 261,713	$ 989,006	$ 318,080
Denominator:				
Weighted average common shares outstanding	229,432	80,994	237,185	76,219
Less: Weighted average unvested common shares subject to repurchase or cancellation	(894)	(217)	(256)	(19)
Number of shares used in per share computations	228,538	80,777	236,929	76,200
Basic net income per share	$ 3.24	$ 3.24	$ 4.17	$ 4.17
Diluted net income per share:				
Numerator:				
Allocation of undistributed earnings for basic computation	$ 740,449	$ 261,713	$ 989,006	$ 318,080
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	261,713		318,080	
Reallocation of undistributed earnings to Class B shares		(1,330)		(2,868)
Allocation of undistributed earnings	$ 1,002,162	$ 260,383	$ 1,307,086	$ 315,212
Denominator:				
Number of shares used in basic computation	228,538	80,777	236,929	76,200
Weighted average effect of dilutive securities				
Add:				
Conversion of Class B to Class A common shares outstanding	80,777		76,200	
Unvested common shares subject to repurchase or cancellation	399	217	275	19
Employee stock options including warrants issued under TSO program	4,314	816	3,244	322
Restricted shares and restricted stock units	842		744	
Number of shares used in per share computations	314,870	81,810	317,392	76,541
Diluted net income per share	$ 3.18	$ 3.18	$ 4.12	$ 4.12

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.

Note 3. Cash, Cash Equivalents and Marketable Securities

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

	As of December 31, 2007	As of March 31, 2008 (unaudited)
Cash and cash equivalents:		
Cash	$ 2,869,528	$ 2,775,402
Cash equivalents:		
U.S. government agencies	110,272	576,870
Municipal securities	232,278	87,391
Time deposits	500,000	500,000
Money market mutual funds	2,369,515	2,580,086
Total cash and cash equivalents	6,081,593	6,519,749
Marketable securities:		
U.S. government notes	475,781	86,679
U.S. government agencies	2,120,972	516,753
Municipal securities	4,991,564	4,491,167
Time deposits	500,000	500,000
Auction rate preferred securities	48,703	20,160
Total marketable securities	8,137,020	5,614,759
Total cash, cash equivalents and marketable securities	$ 14,218,613	$ 12,134,508

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

	As of March 31, 2008			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

		(unaudited)		
U.S. government notes	$ 86,712	$ 87	$ (120)	$ 86,679
U.S. government agencies	515,597	1,307	(151)	516,753
Municipal securities	4,462,630	42,422	(13,885)	4,491,167
Time deposits	500,000			500,000
Auction rate preferred securities	21,000		(840)	20,160
Total marketable securities	$ 5,585,939	$ 43,816	$ (14,996)	$ 5,614,759

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Bank time deposits were held by institutions outside the U.S. at December 31, 2007 and at March 31, 2008.

Gross unrealized gains and losses on cash equivalents were not material at December 31, 2007 and March 31, 2008. We recognized gross realized gains of $50.8 million and losses of $4.2 million on our marketable securities during the three months ended March 31, 2008. Gross realized gains and losses were not material in the three months ended March 31, 2007. There were no other-than-temporary impairments to our marketable securities in the three months ended March 31, 2007 and 2008. Realized gains and losses are included in interest income and other, net in our accompanying Consolidated Statements of Income.

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, 2007	As of March 31, 2008 (unaudited)
Due within 1 year	$ 1,964,325	$ 1,216,282
Due in 1 to 5 years	3,359,472	2,591,340
Due in 5 to 10 years	310,332	202,496
Due after 10 years	2,454,188	1,584,481
Total marketable debt securities	$ 8,088,317	$ 5,594,599

In accordance with EITF 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 March 31, 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 March 31, 2008			
	Less than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Security Description	(unaudited)			
U.S. government notes	$ 50,407	$ (120)	$ 50,407	$ (120)
U.S. government agencies	97,468	(151)	97,468	(151)
Municipal securities	930,934	(13,885)	930,934	(13,885)
Auction rate preferred securities	20,160	(840)	20,160	(840)
Total	$ 1,098,969	$ (14,996)	$ 1,098,969	$ (14,996)

As of March 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 March 31, 2008, we held $259.6 million of auction rate securities which are included under municipal securities and auction rate preferred securities in the above table. The assets underlying these investments are primarily student loans which are

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substantially guaranteed by the U.S. government. Historically, these securities have provided liquidity through a Dutch auction at pre-determined intervals every 7 to 49 days. However, these auctions began to fail in February 2008. As a result, these securities do not have a readily determinable market value and are not liquid. To determine their estimated fair values at March 31, 2008, we used a discounted cash flow model based on estimated interest rates over the period of time we expect to hold these securities. Based on this analysis, we recorded a temporary impairment of $10.8 million to accumulated other comprehensive income on the accompanying Consolidated Balance Sheet at March 31, 2008 (see Note 5).

To the extent we determine that any impairment is other-than-temporary, we would record a charge to earnings. Also, if we ever determine that it is likely that the auctions for the auction rate securities we hold will continue to fail over the next 12 months or more, we would then reclassify those securities to long-term assets from current assets on our Consolidated Balance Sheets.

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 No. 133, *Accounting for Derivative Instruments and Hedging Activities* (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 Statement 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 a combination of forward contracts and options designated as cash flow hedges to hedge certain forecasted revenue transactions denominated in currencies other than the U.S. dollar. The gain or loss 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 or loss after a hedge is de-designated because it is no longer probable of occurring or related to an ineffective portion of a hedge, as well as any amount excluded from our assessment of hedge effectiveness, is recognized as interest income and other, net, immediately. These net gains or losses were not material in the quarter ended March 31, 2008.

The notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Canadian dollars were 154.5 million Canadian dollars (or approximately $151.4 million) and $3.0 million at March 31, 2008. These foreign exchange forward contracts and 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 primarily of forward contracts which we use to hedge intercompany balances and other monetary assets or liabilities denominated in currencies other than the local currency of a subsidiary. Gains and losses on these contracts are included in interest income and other, net, along with those of the related hedged items. Neither the cost nor the fair value of these foreign exchange contracts was material at March 31, 2008. The notional principal of foreign exchange contracts to purchase U.S. dollars with foreign currencies was $1.5 billion and $2.3 billion at December 31, 2007 and March 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 411.4 million (or approximately $651.1 million) at December 31, 2007 and March 31, 2008. The notional principal of foreign exchange contracts to sell Euros for Taiwanese dollars was 18.7 million (or approximately $29.6 million) at March 31, 2008.

Note 5. Fair Value Measurements

Effective January 1, 2008, we adopted SFAS 157, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP SFAS 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:

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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.

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 and foreign currency derivative contracts at fair value. Our cash equivalents and marketable securities are primarily classified within Level 1 or Level 2, with the exception of our investments in auction rate securities. This is because our cash equivalents and marketable securities are valued primarily using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Our investments in auction rate securities are classified within Level 3 because they are valued using a discounted cash flow model (see Note 3). Some of the inputs to this model 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 in inactive markets.

Assets and liabilities measured at fair value are summarized below (unaudited, in thousands):

		Fair value measurement at reporting date using		
Description	**March, 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:				
U.S. government agencies	$ 576,870	$	$ 576,870	$
Municipal securities	87,391		87,391	
Time deposits	500,000		500,000	
Money market mutual funds	2,580,086	2,580,086		
Marketable securities:				
U.S. government notes	86,679		86,679	
U.S. government agencies	516,753		516,753	
Municipal securities	4,491,167		4,251,767	239,400
Time deposits	500,000		500,000	
Auction rate preferred securities	20,160			20,160
Foreign currency derivative contracts	10,007		10,007	
Total assets	$ 9,369,113	$ 2,580,086	$ 6,529,467	$ 259,560
Liabilities				
Foreign currency derivative contracts	$ 6,727	$	$ 6,727	$
Total liabilities	$ 6,727	$	$ 6,727	$

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

	Level 3
Balance at December 31, 2007	$
Transfers to Level 3	311,225
Unrealized loss included in other comprehensive income	(10,815)
Net settlements	(40,850)

Balance at March 31, 2008	$ 259,560

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Effective January 1, 2008, we also adopted SFAS 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 March 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	As of March 31, 2008 (unaudited)
Information technology assets	$ 2,734,916	$ 3,090,650
Construction in process	1,364,651	1,810,637
Land and buildings	951,334	1,014,044
Leasehold improvements	416,884	455,410
Furniture and fixtures	52,127	60,112
Total	5,519,912	6,430,853
Less accumulated depreciation and amortization	1,480,651	1,689,129
Property and equipment, net	$ 4,039,261	$ 4,741,724

Note 7. Acquisitions

In March 2008, we completed our acquisition of Click Holding Corp. (DoubleClick), a company that offers online ad serving and management technology 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. The total purchase price was $3.2 billion paid in cash, including transaction costs of $52.1 million. In addition, we issued unvested options to purchase 127,320 shares of Class A common stock valued at $50.6 million which will be recognized as stock-based compensation as the awards vest over the related vesting periods of up to 47 months. These unvested awards are earned contingent upon each individual s continued employment with us.

The preliminary allocation of the purchase price was based upon a preliminary valuation and our estimates and assumptions are subject to change. The primary areas of the purchase price allocation that are not yet finalized are related to restructuring costs, income taxes and residual goodwill. The following table summarizes the preliminary allocation of the purchase price of DoubleClick (unaudited, in thousands):

Goodwill	$ 2,312,589
Customer relationships	637,200
Patents and developed technology	143,400
Tradenames and other	28,300
Net assets acquired	78,868
Deferred tax assets	312,202
Deferred tax liabilities	(309,137)
Total	$ 3,203,422

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.

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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):

	Three Months Ended March 31,	
	2007	2008
	(unaudited)	
Revenues	$ 3,739.4	$ 5,255.3
Net income	$ 983.3	$ 1,269.5
Net income per share of Class A and Class B common stock - diluted	$ 3.12	$ 4.00

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 the prior periods, we are obligated to make additional cash payments if certain criteria are met. As of March 31, 2008, our remaining contingent obligations related to these acquisitions was approximately $591 million. 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 three months ended March 31, 2008, are as follows (in thousands):

Balance as of December 31, 2007	$ 2,299,368
Goodwill acquired	2,313,623
Goodwill adjustment	178,408
Balance as of March 31, 2008	$ 4,791,399

The goodwill adjustment of $178.4 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 March 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value

		(unaudited)	
Patents and developed technology	$ 511,494	$ 205,359	$ 306,135
Customer relationships	809,076	55,169	753,907
Tradenames and other	225,148	81,218	143,930
Total	$ 1,545,718	$ 341,746	$ 1,203,972

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Amortization expense of acquisition-related intangible assets for the three months ended March 31, 2007 and 2008 was $36.3 million and $55.0 million. Expected amortization expense for acquisition-related intangible assets on our March 31, 2008 Consolidated Balance Sheet for the remainder of 2008 and each of the next five years and thereafter is as follows (unaudited, in thousands):

Remainder of 2008	$ 222,220
2009	246,775
2010	215,871
2011	167,016
2012	129,730
2013	103,671
Thereafter	110,589
	$ 1,195,872

Note 9. Interest Income and Other, Net

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

	Three Months Ended March 31,	
	2007	2008
	(unaudited)	
Interest income	$ 130,475	$ 122,003
Interest expense	(342)	(387)
Realized gains on marketable securities, net	8,053	46,571
Other	(7,458)	(844)
Interest income and other, net	$ 130,728	$ 167,343

Note 10. Comprehensive Income

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

	Three Months Ended March 31,	
	2007	2008
	(unaudited)	
Net income	$ 1,002,162	$ 1,307,086
Change in unrealized gains (losses) on marketable securities, net	881	(9,809)
Change in cumulative translation adjustment and other	12,749	29,851
Comprehensive income	$ 1,015,792	$ 1,327,128

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

	As of December 31, 2007	As of March 31, 2008 (unaudited)
Unrealized gains on marketable securities, net	$ 90,872	$ 12,692
Cumulative translation adjustment and other	22,501	120,723
Accumulated other comprehensive income	$ 113,373	$ 133,415

Note 11. Contingencies

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. Courts in France have held us liable for allowing advertisers to select certain trademarked terms as keywords. We are appealing those decisions. We were also subject to two lawsuits in Germany on similar matters where the courts held that we are not liable for the actions of our advertisers prior to notification of trademark rights. 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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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 experienced an increase in patent lawsuits filed against us alleging that certain of our products and services, including Google Web Search, Google AdWords, and Google AdSense, infringe another party s patents. Adverse results in these lawsuits may include awards of substantial monetary damages, obligations to pay licensing fees and/or orders preventing 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, 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 Internal Revenue Service 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

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2008
	(unaudited)	
Risk-free interest rate	4.6%	2.7%
Expected volatility	30%	35%
Expected life (in years)	3.4	5.3
Dividend yield		
Weighted-average estimated fair value of options granted during the period	$ 130.77	$ 269.79

The following table summarizes the activity for our options for the three months ended March 31, 2008:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions) (1)
	(unaudited)			
Balance at December 31, 2007	12,892,886	$ 333.62		
Options granted	338,339	$ 346.11		
Exercised(2)	(624,514)	$ 28.04		
Canceled/forfeited	(142,999)	$ 388.38		

Balance at March 31, 2008	12,463,712	$	345.49	7.3	$	1,162.0
Vested and exercisable as of March 31, 2008	4,902,442	$	235.53	7.0	$	1,004.7
Vested and exercisable as of March 31, 2008 and expected to vest thereafter (3)	11,761,690	$	342.54	7.3	$	1,151.8

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of $440.47 of our Class A common stock on March 31, 2008.

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(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 March 31, 2008:

	Options Outstanding					Options Exercisable		Options Exercisable and Vested	
Range of Exercise Prices	Total Number of Shares	Unvested Options Granted and Exercised Subsequent to March 21, 2002	Number of Shares	Weighted-Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 0.30 94.80	2,147,822	228,029	1,919,793	5.6	$ 21.12	1,757,476	$ 19.01	1,185,220	$ 18.46
$117.84 $198.41	1,655,976		1,655,976	5.5	$ 176.43	1,100,627	$ 175.12	1,100,514	$ 175.12
$205.96 $298.91	1,380,939		1,380,939	6.2	$ 274.48	808,224	$ 274.09	808,170	$ 274.09
$300.97 $399.00	1,763,894		1,763,894	6.7	$ 329.63	930,789	$ 326.92	930,506	$ 326.90
$401.78 $499.07	1,543,774		1,543,774	8.3	$ 450.09	468,924	$ 440.47	468,783	$ 440.48
$500.00 594.05	3,710,417		3,710,417	9.1	$ 556.54	409,112	$ 507.95	409,112	$ 507.95
$615.95 $699.35	208,207		208,207	9.7	$ 655.41	95	$ 664.72	95	$ 664.72
$707.00 $732.94	52,683		52,683	9.6	$ 718.17	42	$ 707.00	42	$ 707.00
$ 0.30 $732.94	12,463,712	228,029	12,235,683	7.3	$ 345.49	5,475,289	$ 213.03	4,902,442	$ 235.53

Options outstanding at March 31, 2008 in the above tables include 228,029 options granted and exercised subsequent to March 21, 2002 that are unvested at March 31, 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 990,799 warrants held by financial institutions that were options purchased from employees under our TSO program.

The total grant date fair value of stock options vested during the three months ended March 31, 2008 was $161.0 million. The aggregate intrinsic value of all options exercised during the period was $228.3 million. These amounts do not include the aggregate sales price of options sold under the TSO program.

During the three months ended March 31, 2008, the number of shares underlying TSOs sold to selected financial institutions under the TSO program was 66,400 at a total value of $16.0 million, or an average of $241.26 per share, and an average premium of $41.52 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 March 31, 2008, the number of options eligible for participation under the TSO program was 8.7 million.

As of March 31, 2008, there was $1,078.5 million of unrecognized compensation cost related to outstanding employee stock options, net of forecasted forfeitures. 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.

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The following table summarizes the activity for our unvested restricted stock units and restricted shares for the three months ended March 31, 2008:

	Unvested Restricted Stock Units and Restricted Shares	
	Number of Shares	Weighted-Average Grant-Date Fair Value
	(unaudited)	
Unvested at December 31, 2007	2,990,222	$ 526.92
Granted	981,483	$ 467.42
Vested	(187,113)	$ 417.49
Forfeited	(125,709)	$ 508.93
Unvested at March 31, 2008	3,658,883	$ 516.34
Expected to vest after March 31, 2008 (1)	3,421,056	$ 516.34

(1) Restricted stock units and restricted shares expected to vest reflect an estimated forfeiture rate.

As of March 31, 2008, there was $1,586.3 million of unrecognized compensation cost related to employee unvested restricted stock units and restricted shares, net of forecasted forfeitures. This amount is expected to be recognized over a weighted average period of 3.4 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. 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. Financial Standards Accounting Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes,* and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Our total unrecognized tax benefits as of December 31, 2007 and March 31, 2008 were $387.2 million and $524.5 million. Also, our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were $283.5 million and $387.2 million as of December 31, 2007 and March 31, 2008, respectively. The increase in our unrecognized tax benefits during the three months ended March 31, 2008 was primarily related to uncertain tax positions on our international structure.

Note 14. Information about Geographic Areas

Our chief operating decision-makers (i.e., our chief executive officer, his direct reports and our presidents) 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.

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

	Three Months Ended		
	March 31, 2007	December 31, 2007	March 31, 2008
		(Unaudited)	

Revenues:			
United States	$ 1,958,382	$ 2,505,888	$ 2,535,474
United Kingdom	578,359	692,027	802,973
Rest of the world	1,127,230	1,628,764	1,847,596
Total revenues	$ 3,663,971	$ 4,826,679	$ 5,186,043

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	As of December 31, 2007	As of March 31, 2008 (unaudited)
Long-lived assets:		
United States	$ 7,334,877	$ 11,231,085
International	711,791	908,966
Total long-lived assets	$ 8,046,668	$ 12,140,051

Note 15. Subsequent Event

In May 2008, Clearwire Corporation and Sprint Nextel Corporation agreed to combine certain businesses to form a wireless communication company, the new Clearwire. In addition, certain other companies have collectively agreed to contribute $3.2 billion in cash to the new Clearwire or its subsidiary, including $500 million from us. The completion of this transaction is subject to customary closing conditions. We expect the transaction to close during the second half of 2008.

This investment will be a marketable equity security and will be classified and accounted for as available for sale. As a result, it will be carried at fair value, with 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 will be recorded as interest income and other, net, in accordance with our policy and FSP Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to historical information, this report 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, costs and expenses;

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 TSO program;

regarding our dilution related to all equity grants to employees;

regarding the steps we take to improve the relevance of the ads we deliver;

regarding our actions to reduce the number of accidental clicks;

that we will continue to make significant capital expenditure investments;

that the growth rate of our costs and expenses may exceed the growth rate of our revenues;

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, sales and marketing and general and administrative expenses in the future;

regarding quarterly fluctuations in paid clicks;

that we will continue to make investments and acquisitions;

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

regarding quarterly fluctuations in our effective tax rate;

regarding continued investments in international markets;

regarding the expected closing date of our proposed investment in Clearwire;

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 report, and in particular, the risks discussed under the heading Risk Factors in Part II, Item 1A of this report 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 report.

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 destination 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 offline media such as TV, print and radio, 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. These advertising programs provide advertisers with a cost-effective way to deliver 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 the search results and content they provide.

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 audio ads on radio broadcasts, print ads for display in newspapers and magazines, and ads on television. 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 98% of our revenues for the three months ended March 31, 2008 and 99% for the three months ended March 31, 2007. We derive the balance of our revenues from the license of our web search technology, the license of our search solutions to enterprises and the sale and license of other products and services.

Google AdWords is our automated online program that enables advertisers to place targeted text-based and display ads on our web sites and the web sites of our Google Network members. 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 Google Network members sites 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 Google Network members 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 sites. Our AdWords agreements are generally terminable at any time by our advertisers.

Google AdSense refers to the online and offline 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 audio ads on radio broadcasts, print ads for display in newspapers and magazines, and ads on television 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 generally 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 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, 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 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 the members of the Google Network, 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. Members of the Google Network 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.

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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 Google Network members. We recognize these advertiser fees as revenue and the portion of the advertiser fee we pay to our content providers as content acquisition costs under cost of revenues. In some cases, we guarantee our content providers minimum revenue share or other payments.

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 or share, and the content providers receive most of the advertiser fees generated by ads displayed on our web sites and our Google Network members web sites.

We also distribute our advertisers ads for publication in print media through our Google Print Ads program, and we recognize as revenue the fees charged advertisers when their ads are published in print media. Additionally, we distribute advertisers audio ads for broadcast in radio programs through our Google Audio Ads program, and we recognize as revenue the fees charged advertisers each time an ad is broadcasted or a listener responds to that ad.

In the fourth quarter of 2006, we acquired YouTube, a consumer media company for people to watch and share videos worldwide through the web. We recognize as revenue the fees charged advertisers each time an ad or a promoted video is displayed on the YouTube site.

In the second quarter of 2007, we began delivering Google TV ads to viewers and helping advertisers, operators and programmers buy, schedule, deliver and measure ads on television. We recognize as revenue the fees charged advertisers each time an ad is displayed on TV in accordance with the terms of the related agreements.

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

- The relevance, objectivity and quality of our search results.
- The number and type of searches initiated at our web sites.
- The number and type of searches initiated at, as well as the number of visits to and the content of, our Google Network members web sites.
- The advertisers return on investment (ad cost per sale or cost per conversion) from advertising campaigns on our web sites or our Google Network members web sites or other media compared to other forms of advertising.
- The number of advertisers and the breadth of items advertised.
- The total and per click or per impression advertising spending budgets of each advertiser.
- The amount we ultimately pay our Google Network members and our content providers for traffic and content compared to the amount of revenue we generate.
- The monetization of (or generation of revenue from) traffic on our web sites and our Google Network members web sites.

We believe that the monetization of traffic on our web sites, and our Google Network members web sites is affected by the following factors:

The relevance and quality of ads displayed with each search results page on our web sites and our Google Network members web sites, as well as with each content page on our Google Network members web sites, including the relevance and quality of an ad s landing page or page a user views after an ad is clicked.

The number and prominence of ads displayed, if any, with each search results page on our web sites and our Google Network members web sites, as well as with each content page on our Google Network members web sites.

The rate at which our users and users of our Google Network members web sites click on advertisements.

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 increasing competition and the difficulty of maintaining growth rates as our revenues increase to higher levels. In addition, 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 may 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 removing ads that generate low click-

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through rates or that send users to irrelevant or otherwise low quality sites and terminating Google Network members whose web sites do not meet our quality requirements. In addition, we may continue to take steps to reduce the number of accidental clicks. These steps could negatively affect our near-term advertising 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.

From the inception of the Google Network in 2002 through the first quarter of 2004, the growth in advertising revenues from our Google Network members web sites exceeded that from our web sites, which had a negative impact on our operating margins. 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 member web sites are shared with our Google Network members. However, beginning in the second quarter of 2004, 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 are heavily investing 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 substantial 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. In addition, we are incurring significant costs and expenses to support our Google Checkout product and promote its adoption by merchants and consumers, as well as promote the distribution of certain other products, including the Google Toolbar. Our full-time employee headcount has significantly increased over the last 12 months, growing from 12,238 at March 31, 2007 to 19,156 at March 31, 2008, including approximately 1,500 new employees as a result of our acquisition of DoubleClick. We also utilize a significant number of temporary employees. We also expect to continue to make significant capital expenditure investments in, among other things, information and technology infrastructure and corporate facilities. In April 2007, we launched our TSO program. We modified employee options at that time to allow them to participate in this program, and as a result we incurred a modification charge of approximately $104 million through March 31, 2008 related to vested options, and we expect to incur an additional modification charge of approximately $125 million related to unvested options over their remaining vesting periods through the second quarter of 2011. In addition, the fair value of each option granted under the TSO program will be greater than it would have been otherwise because of a longer expected life, resulting in more stock-based compensation per option. As a result of all of the above, the growth rate of our costs and expenses may exceed the growth rate of our revenues.

We expect our cost of revenues to continue to increase in dollars and may increase as a percentage of revenues in 2008 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, including transaction processing fees related to Google Checkout, 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 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.

Our international revenues grew as a percentage of our total revenues to 51% in the three months ended March 31, 2008 from 48% in the three months ended December 31, 2007 and from 47% in the three months ended March 31, 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 British pound and other foreign currencies compared to the U.S. dollar over these periods. 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.

Results of Operations

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

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	Three Months Ended		
	March 31, 2007	December 31, 2007	March 31, 2008
Consolidated Statements of Income Data:			
Revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of revenues	40.1	40.5	40.7
Research and development	11.1	13.1	13.0
Sales and marketing	8.3	8.8	8.6
General and administrative	7.2	7.8	7.9
Total costs and expenses	66.7	70.2	70.2
Income from operations	33.3	29.8	29.8
Interest income and other, net	3.6	3.5	3.2
Income before income taxes	36.9	33.3	33.0
Provision for income taxes	9.5	8.3	7.8
Net income	27.4%	25.0%	25.2%

Revenues

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

	Three Months Ended		
	March 31, 2007	December 31, 2007	March 31, 2008
Advertising revenues:			
Google web sites	$ 2,282.1	$ 3,121.6	$ 3,400.4
Google Network web sites	1,345.4	1,635.8	1,686.1
Total advertising revenues	3,627.5	4,757.4	5,086.5
Licensing and other revenues	36.5	69.3	99.5
Revenues	$ 3,664.0	$ 4,826.7	$ 5,186.0

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

	Three Months Ended		
	March 31, 2007	December, 31, 2007	March 31, 2008
Advertising revenues:			
Google web sites	62%	65%	66%
Google Network web sites	37	34	32
Total advertising revenues	99	99	98
Google web sites as % of advertising revenues	63	66	67
Google Network web sites as % of advertising revenues	37	34	33
Licensing and other revenues	1%	1%	2%

Growth in our revenues in the three months ended March 31, 2008 compared to the three months ended December 31, 2007 resulted primarily from growth in advertising revenues for Google web sites, and to a lesser extent, Google Network web sites. Our advertising revenue growth for Google web sites and Google Network web sites resulted primarily from an increase in the total number of paid clicks and ads displayed through our programs, rather than from changes in the average fees paid by our advertisers. The increase in the number of paid clicks and ads displayed through our programs was due to an increase in aggregate traffic on our web sites, certain monetization improvements and the continued global expansion of our products, our advertiser base and our user base, as well as an increase in the number of Google Network members and distribution partners.

Growth in our revenues in the three months ended March 31, 2008 compared to the three months ended March 31, 2007 resulted primarily from growth in advertising revenues for Google web sites and Google Network web sites. Our advertising revenue growth for Google web sites and Google Network web sites resulted primarily from increases in the total number of paid clicks and ads displayed through our programs, rather than from changes in the average fees paid by our advertisers. The increase in the number of paid clicks and ads displayed through our programs was due to an increase in aggregate traffic on both our web sites and those of our Google Network members, certain improvements in the monetization of increased traffic on our web sites and our Google Network member sites, the continued global expansion of our products, our advertiser base and our user base, and an increase in the number of Google Network members and distribution partners.

Improvements in our ability to ultimately monetize this 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 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, and 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.

Our sequential quarterly revenue growth rate decreased from 14.1% for the three months ended December 31, 2007, to 7.5% for the three months ended March 31, 2008.

The sequential quarterly revenue growth rate from Google web sites decreased from 14.1% for the three months ended December 31, 2007, to 8.9% for the three months ended March 31, 2008. The sequential quarterly revenue growth rate from our Google Network members web sites decreased from 12.5% for the three months ended December 31, 2007, to 3.1% for the three months ended March 31, 2008. These decreases in the sequential quarterly revenue growth rates are primarily the result of our higher revenue levels and seasonal slowdowns in internet usage and commercial queries. In addition, during the three months ended March 31, 2008, we terminated relationships with certain Google Network members who did not comply with our AdSense policies, which adversely affected our revenues. The sequential quarterly revenue growth from our web sites has been greater than that from our Google Network members web sites primarily as a result of a greater increase in the total number of paid clicks on our web sites, which was largely due to higher traffic growth and monetization improvements. 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.

Aggregate paid clicks on our web sites and our Google Network members web sites increased approximately 4% from the three months ended December 31, 2007 to the three months ended March 31, 2008, and increased approximately 20% from the three months ended March 31, 2007 to the three months ended March 31, 2008. 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

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and the revenue growth rates on our web sites compared to those of our Google Network members. 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 and ads displayed 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 believe results in a better user experience, which in turn results in more searches, advertisers, and Google Network members and other partners. Revenues realized through the Google Print Ads Program, Google Audio Ads, Google TV Ads, Google Checkout, YouTube, Postini and DoubleClick were not material in any of the periods presented.

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 (unaudited):

	Three Months Ended		
	March 31, 2007	December 31, 2007 (unaudited)	March 31, 2008
United States	53%	52%	49%
United Kingdom	16%	14%	15%
Rest of the world	31%	34%	36%

The growth in international revenues in the three months ended March 31, 2008 compared to the three months ended December 31, 2007 and the three months ended March 31, 2007 resulted largely from increased acceptance of our advertising programs, 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. Furthermore, the growth in international revenues from the three months ended December 31, 2007 to the three months ended March 31, 2008 resulted from seasonally stronger traffic and monetization in certain advertising verticals, such as travel and finance in the United Kingdom and certain other countries compared to the U.S.

In addition, the weakening of the U.S. dollar relative to other foreign currencies (primarily the Euro and the British pound) in the three months ended March 31, 2008 compared to the three months ended December 31, 2007 had a favorable impact on our international revenues, which increased $329.8 million. Had foreign exchange rates remained constant in these periods, our total revenues would have been approximately $18.1 million, or 0.3%, lower. The weakening of the U.S. dollar relative to other foreign currencies (primarily the Euro and the British pound) in the three months ended March 31, 2008 compared to the three months ended March 31, 2007 had a favorable impact on our international revenues, which increased $945.0 million. Had foreign exchange rates remained constant in these periods, our total revenues would have been approximately $202.0 million, or 3.9%, lower.

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 2008 or thereafter. See Note 14 of Notes to Consolidated Financial Statements included as part of this Form 10-Q 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. 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 paid when the access points are delivered or based on revenue share and 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.

In addition, 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. In addition, 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.

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 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, based on the number of times the content is displayed, or 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, unaudited):

	Three Months Ended		
	March 31, 2007	December 31, 2007 (unaudited)	March 31, 2008
Cost of revenues	$ 1,470.4	$ 1,955.8	$ 2,110.5
Cost of revenues as a percentage of revenues	40.7%	40.5%	40.7%

	Three Months Ended		
	March 31, 2007	December 31, 2007	March 31, 2008
Traffic acquisition costs	$ 1,125.0	$ 1,439.8	$ 1,486.4
Traffic acquisition costs as a percentage of advertising revenues	31.0%	30.3%	29.2%

Cost of revenues increased $154.7 million from the three months ended December 31, 2007 to the three months ended March 31, 2008. There was an increase in data center costs of $66.0 million primarily as a result of the depreciation of additional information technology assets and data center buildings as well as additional personnel required to manage the data centers. Over this same period there was an increase in traffic acquisition costs of $46.6 million, which includes an increase of $17.9 million in fees related to distribution arrangements. In addition, there was an increase in content acquisition costs of $27.0 million and an increase in amortization of intangible assets of $10.0 million primarily as a result of our acquisition of DoubleClick. 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. 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 $640.1 million from the three months ended March 31, 2007 to the three months ended March 31, 2008. Over the same period there was an increase in traffic acquisition costs of $361.4 million primarily resulting from more advertiser fees generated through our AdSense program, and to a lesser extent, an increase of $70.0 million in fees related to distribution arrangements, and an increase in data center costs of $196.8 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 content acquisition costs of $31.7 million and an increase in the amortization of intangible assets of $24.3 million primarily resulting from acquisitions in the current and prior periods, and an increase in credit card and other transaction processing fees of $13.4 million resulting from more advertiser fees being generated through AdWords. 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.

We expect cost of revenues to continue to increase in dollars and may increase as a percentage of revenues in 2008 and in future periods, primarily as a result of forecasted increases in traffic acquisition costs, data center costs, credit card and other transaction fees,

including transaction processing fees related to Google Checkout, 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 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.

- whether we share with existing and new 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.

- the relative growth rates of expenses associated with distribution arrangements and the related revenues generated.

Research and Development.

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

	Three Months Ended		
	March 31, 2007	**December 31, 2007 (unaudited)**	**March 31, 2008**
Research and development expenses	$ 408.4	$ 630.8	$ 673.1
Research and development expenses as a percentage of revenues	11.1%	13.1%	13.0%

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 $42.3 million from the three months ended December 31, 2007 to the three months ended March 31, 2008. This increase was primarily due to an increase in stock-based compensation of $32.4 million. In addition, labor and facilities related costs increased $20.7 million as a result of a 13% increase in research and development headcount which also includes the increased headcount resulting from our acquisition of DoubleClick.

Research and development expenses increased $264.7 million from the three months ended March 31, 2007 to the three months ended March 31, 2008. This increase was primarily due to an increase in labor and facilities related costs of $149.2 million as a result of a 60% increase in research and development headcount. In addition, there was an increase in stock-based compensation expense of $73.0 million, an increase in fees for professional services of $22.7 million and an increase in depreciation and related expenses of $11.4 million due to our increased capital expenditures.

We anticipate that research and development expenses will increase in dollar amount and may increase as a percentage of revenues in 2008 and future periods because we expect to hire more research and development personnel 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, unaudited):

	Three Months Ended		
	March 31, 2007	December 31, 2007	March 31, 2008
		(unaudited)	
Sales and marketing expenses	$ 302.6	$ 422.3	$ 446.9
Sales and marketing expenses as a percentage of revenues	8.3%	8.8%	8.6%

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

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Sales and marketing expenses increased $24.6 million from the three months ended December 31, 2007 to the three months ended March 31, 2008. This increase was primarily due to an increase in labor and facilities related costs of $29.4 million mostly as a result of a 16% increase in sales and marketing headcount which also includes the increased headcount resulting from our acquisition of DoubleClick. This increase was partially offset by a decrease in advertising and promotional activities.

Sales and marketing expenses increased $144.3 million from the three months ended March 31, 2007 to the three months ended March 31, 2008. This increase was primarily due to an increase in labor and facilities related costs of $106.3 million mostly as a result of a 54% increase in sales and marketing headcount, as well as an increase in stock-based compensation expense of $15.3 million.

We anticipate sales and marketing expenses will continue to increase in dollar amount and may increase as a percentage of revenues in 2008 and future periods as we continue to expand our business on a worldwide basis. A significant portion of these increases relate to our plan to hire additional personnel and increase advertising and promotional expenditures to increase the level of service we provide to our advertisers and Google Network members. We also plan to add more international sales personnel to support our worldwide expansion.

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, unaudited):

	Three Months Ended		
	March 31, 2007	**December 31, 2007 (unaudited)**	**March 31, 2008**
General and administrative expenses	$ 261.4	$ 377.0	$ 409.3
General and administrative expenses as a percentage of revenues	7.2%	7.8%	7.9%

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 increased $32.3 million from the three months ended December 31, 2007 to the three months ended March 31, 2008, primarily due to an increase in bad debt expense of $21.2 million as a result of increased risk in this area. In addition, there was an increase in fees for professional services of $14.7 million.

General and administrative expenses increased $147.9 million from the three months ended March 31, 2007 to the three months ended March 31, 2008. This increase was primarily due to an increase in labor and facilities related costs of $47.2 million primarily as a result of a 59% increase in headcount. In addition, there was an increase in fees for professional services of $40.3 million and an increase in depreciation related expense of $10.5 million.

As we expand our business and incur additional expenses, we believe general and administrative expenses will increase in dollar amount and may increase as a percentage of revenues in 2008 and future periods.

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, unaudited):

	Three Months Ended		
	March 31, 2007	**December 31, 2007 (unaudited)**	**March 31, 2008**
Stock-based compensation	$ 183.9	$ 245.3	$ 280.8

Stock-based compensation as a percentage of revenues	5.0%	5.1%	5.4%

Stock-based compensation increased $35.5 million from the three months ended December 31, 2007 to the three months ended March 31, 2008, and $96.9 million from the three months ended March 31, 2007 to the three months ended March 31, 2008. These increases were primarily due to additional stock awards issued to existing and new employees.

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We expect stock-based compensation to be approximately $1.1 billion in 2008 and $1.9 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 March 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. We currently anticipate that dilution related to all equity grants to employees will be at or below 2% this year.

Interest Income and Other, Net

Interest income and other of $167.3 million in the three months ended March 31, 2008 primarily consisted of $122.0 million of interest income earned on our cash, cash equivalents and marketable securities balances. In addition, we recognized $46.6 million of realized gains on sales of marketable securities.

Interest income and other of $130.7 million in the three months ended March 31, 2007 primarily consisted of $130.5 million of interest income earned on our cash, cash equivalents and marketable securities balances.

Provision for Income Taxes

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

	Three Months Ended		
	March 31, 2007	December 31, 2007 (unaudited)	March 31, 2008
Provision for income taxes	$ 349.8	$ 401.6	$ 406.5
Effective tax rate	25.9%	25.0%	23.7%

Our effective tax rate decreased from the three months ended December 31, 2007 to the three months ended March 31, 2008, primarily as a result of proportionately more of our annual earnings expected to be realized in countries where we have lower statutory tax rates in 2008 compared to 2007.

Our provision for income taxes increased from the three months ended March 31, 2007 to the three months ended March 31, 2008, primarily as a result of increases in federal and state income taxes, driven by higher taxable income period over period. Our effective tax rate decreased from the three months ended March 31, 2007 to the three months ended March 31, 2008, primarily as a result of proportionately more of our annual earnings expected to be realized in countries where we have lower statutory tax rates in 2008 compared to 2007.

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 rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets or liabilities, or by 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.

Liquidity and Capital Resources

In summary, our cash flows were (in millions, unaudited):

	Three Months Ended March 31,	
	2007	2008
	(unaudited)	
Net cash provided by operating activities	$ 1,219.6	$ 1,779.4
Net cash used in investing activities	(777.1)	(1,407.0)

Net cash provided by financing activities	88.5	28.7

At March 31, 2008, we had $12.1 billion of cash, cash equivalents and marketable securities. Cash equivalents and marketable securities are comprised of debt instruments of the U.S. government and its agencies, municipalities in the U.S., time deposits as well as U.S. corporate securities. Marketable securities also include auction rate securities (ARS) of $259.6 million. The related auctions began to fail in February 2008. As a result, these securities are currently illiquid. Note 3 of Notes to Consolidated Financial Statements included as part of this report provides further discussion on ARS and the composition of our cash, cash equivalents and marketable securities.

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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 March 31, 2008, we had unused letters of credit for approximately $20.4 million and $54.8 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. 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, in-process research and development, stock-based compensation, excess tax benefits from stock-based award activity, and the effect of changes in working capital and other activities. Cash provided by operating activities in the three months ended March 31, 2008 was $1,779.4 million and consisted of net income of $1,307.1 million, adjustments for non-cash items of $483.1 million and cash used in working capital and other activities of $10.8 million. Adjustments for non-cash items primarily consisted of $280.8 million of stock-based compensation, $280.6 million of depreciation and amortization expense on property and equipment and $56.0 million of amortization of intangibles and other, partially offset by $51.1 million of excess tax benefits from stock-based award activity. In addition, changes in working capital activities primarily consisted of a decrease of $234.3 million in accrued expenses and other liabilities primarily as a result of employee bonuses for the year ended December 31, 2007 paid in the first quarter of 2008, and an increase of $223.5 million in accounts receivable due to the growth in fees billed to our advertisers and an increase of $41.6 million in prepaid revenue share, expenses and other assets, partially offset by a net increase in income taxes payable and deferred income taxes of $438.2 million (which includes the same $51.1 million of excess tax benefits from stock-based awards included under adjustments for non-cash items) and to a lesser extent by an increase in accounts payable of $53.8 million. The increase in income taxes payable and deferred income taxes was primarily a result of additional tax obligations accrued, as well as less estimated income taxes paid, in the first quarter of 2008 compared to the fourth quarter of 2007.

Cash provided by operating activities in the three months ended March 31, 2007 was $1,219.6 million and consisted of net income of $1,002.2 million, adjustments for non-cash items of $247.0 million and cash used in working capital and other activities of $29.6 million. Adjustments for non-cash items primarily consisted of $183.9 million of stock-based compensation and $170.3 million of depreciation expense on property and equipment, partially offset by $74.1 million of excess tax benefits from stock-based award activity. In addition, working capital activities primarily consisted of an increase of $185.5 million in prepaid revenue share, expenses and other assets, an increase of $153.6 million in accounts receivable due to the growth in fees billed to our advertisers, a decrease of $169.1 million in accrued expenses and other liabilities and accounts payable primarily as a result of employee bonuses for the year ended December 31, 2006 paid in the first quarter of 2007, partially offset by a net increase in income taxes payable and deferred income taxes of $399.1 million which includes the same $74.1 million of excess tax benefits from stock-based award included under adjustments for non-cash items. The increase in income taxes payable and deferred income taxes was primarily a result of additional tax obligations accrued, as well as less estimated income taxes paid, in the first quarter of 2007 compared to the fourth quarter of 2006.

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. In addition, since we have become a public company our cash-based compensation per employee has increased and will likely continue to increase in order to attract and retain employees.

Cash used in investing activities in the three months ended March 31, 2008 of $1,407.0 million was attributable to cash consideration used in acquisitions of $3,125.1 million, primarily related to the DoubleClick acquisition and capital expenditures of $841.6 million, partially offset by net proceeds received from the sales and maturities of marketable securities of $2,559.7 million. Cash used in investing activities in the three months ended March 31, 2007 of $777.1 million was attributable to net purchases of marketable securities of $145.8 million, capital expenditures of $596.9 million and cash consideration used in acquisitions and other investments of $34.4 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 continue to invest heavily in data center operations, technology, corporate facilities and information technology infrastructure in 2008 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 March 31, 2008, our remaining contingent obligations related to these acquisitions was approximately $591 million. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower. In May 2008, Clearwire Corporation and Sprint Nextel Corporation agreed to combine certain businesses to form a wireless communication company,

the new Clearwire. In addition, certain other companies have collectively agreed to contribute $3.2 billion in cash to the new Clearwire or its subsidiary, including $500 million from us. The completion of this transaction is subject to customary closing conditions. We expect the transaction to close during the second half of 2008.

Also, 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 have 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 not been spent or committed.

Cash provided by financing activities in the three months ended March 31, 2008 of $28.7 million was primarily due to excess tax benefits of $51.1 million from stock-based award activities during the period which represents a portion of the $70.3 million reduction to income taxes payable that we recorded in the first quarter of 2008 related to the total direct tax benefit realized from the exercise, sale or vesting of these awards, as well as net payments related to stock-based award activity of $22.4 million. Net payments result when the tax withholding payments we make on behalf of our employees upon the net settlement of their vested restricted stock units exceeds the cash we receive upon the exercise of stock options. Cash provided by financing activities in the three months ended March 31, 2007 of $88.5 million was primarily due to excess tax benefits of $74.1 million from stock-based award activity during the period which represents a portion of the $107.1 million reduction to income taxes payable that we recorded in the first quarter of 2007 related to the total direct tax benefit realized from the exercise, sale or vesting of these awards. In addition, we received net proceeds from the issuance of common stock pursuant to stock-based award activity of $14.4 million.

Contractual Obligations

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. At March 31, 2008, our aggregate outstanding non-cancelable guaranteed minimum revenue share commitments totaled $1,598.7 million through 2012 compared to $1,746.4 million at December 31, 2007.

In addition, as of a result of having adopted FIN 48 (discussed below under Income Taxes) 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 $140.3 million in the quarter ended March 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.

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. Effective January 1, 2007, we adopted Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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

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closing of a tax audit or the refinement of an estimate. 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 rate primarily due to the tax impact of foreign operations, research and experimentation tax credits, state taxes, and certain benefits realized related to stock option activity. The effective tax rate was 25.0% and 23.7% for the three months ended December 31, 2007 and March 31, 2008, respectively. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets or liabilities, or by 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.

Stock-Based Compensation

We account for stock-based compensation in accordance with 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, forfeiture rates 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.

Traffic Acquisition Costs

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. To the extent we expect revenues generated under such 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; if our estimate of revenues under such an arrangement is subsequently revised downward, then the amount of traffic acquisition costs we would recognize thereafter would be proportionately 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.

Effect of Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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. We are currently evaluating the potential impact of the adoption of SFAS 141R on our consolidated financial position, results of operations and cash flows.

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 are currently evaluating the potential impact of the adoption of SFAS 160 on our consolidated financial position, results of operations and cash flows.

In February 2008, the FASB issued Financial Staff Positions (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 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 FAS 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. FSP FAS 157-2 is effective for us beginning January 1,

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2009. We are currently evaluating the potential impact of the adoption of those provisions of SFAS 157, for which effectiveness was delayed by FSP SFAS 157-2, on our consolidated financial position and results of operations.

ITEM 3. 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, subjecting us to foreign currency risk. We purchase foreign exchange forward and 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 or loss on the effective portion of a cash flow hedge is initially reported as a component of accumulated other comprehensive income and subsequently reclassified into earnings when the hedged exposure affects earnings or when the hedged transaction is no longer probable of occurring. The gain or loss on the ineffective portion, if any, of a hedge is recognized in earnings immediately. At March 31, 2008, the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Canadian dollars were 154.5 million Canadian dollars (or approximately $151.4 million) and $3.0 million. These foreign exchange forward contracts and 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. The net gains or losses on the effective and ineffective portions of these cash flow hedges were not material at March 31, 2008 and in the quarter ended March 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 10% for our foreign currencies instruments could be experienced in the near term. These changes would have resulted in a decrease of $4.0 million in the fair values of our foreign currency instruments designated as cash flow hedges.

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 U.S. dollar, primarily the British pound, the Euro, the Canadian dollar 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 $2.3 billion at December 31, 2007 and March 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 411.4 million (or approximately $651.1 million) at December 31, 2007 and March 31, 2008. The notional principal of foreign exchange contracts to sell Euros for Taiwanese dollars was 18.7 million (or approximately $29.6 million) at March 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 10% 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 $39.7 million and $14.7 million at December 31, 2007 and March 31, 2008. The adverse impact at December 31, 2007 and March 31, 2008 is after consideration of the offsetting effect of approximately $163.7 million and $244.2 million from forward exchange contracts in place for the months of December 2007 and March 2008. These reasonably possible adverse changes in exchange rates of 10% 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 in a variety of securities, consisting primarily of investments in interest-bearing demand deposit accounts with financial institutions, tax-exempt money market funds and debt securities of corporations and municipalities. By policy, we limit the amount of credit exposure to any one issuer.

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Investments in both fixed rate and floating rate interest earning products 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 $86.7 million and $74.2 million at December 31, 2007 and March 31, 2008.

ITEM 4. 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 of the end of the period covered by this Quarterly Report on Form 10-Q. 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 our evaluation, our chief executive officer and chief financial officer concluded that 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 to ensure we maintain an effective internal control environment. As we grow geographically and with new product offerings, we continue to create new processes and controls as well as improve our existing environment to increase efficiencies. Improvements 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 Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. 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 a particular period. See the risk factors *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* and *Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand* in the Risks Related to Our Business and Industry section of Item 1A of this Quarterly Report on Form 10-Q.

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 are 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 from other internet companies, including web search providers, internet access providers, internet advertising companies and destination web sites.

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 Google Checkout, YouTube and our communications tools such as 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 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. In addition, the access provider or manufacturer may make it hard to access our services by not listing them in the access provider s or manufacturer s own menu of offerings, or may charge users to access our web sites or the web sites of our Google Network members. 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.

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

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

In addition to internet companies, we face competition from companies that offer traditional media advertising opportunities. Most large advertisers have 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 expect that our revenue growth rate will decline over time and anticipate that there will be downward pressure on our operating margin. We believe our revenue growth rate will generally decline as a result of increasing competition and the inevitable decline in growth rates as our revenues increase to higher levels. 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 sites compared to revenues generated through ads placed on our own 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.
- 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.
- 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, Gmail, orkut 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. 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 98% of our revenues for the first three months of 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. 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. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Any decreases in or delays in advertising spending due to general economic conditions could reduce our revenues or negatively impact our ability to grow our revenues.

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 members of our Google Network, which accounted for 35% of our revenues in 2007 and 32% of our revenues in the three months ended March 31, 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 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, and continue to experience, 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, Postini and YouTube, and are in the process of integrating these businesses into our own. We also expect to continue to evaluate and enter into discussions

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regarding a wide array of potential strategic transactions. These transactions could be material to 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.
- 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 violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities.

In addition, foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

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. Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on favorable terms or at all. 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), YouTube or Postini.

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 the first three months of 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.
- Difficulties in developing products and services in different languages and for different cultures.

- Longer payment cycles in some countries.
- Credit risk and higher levels of payment fraud.
- Currency exchange rate fluctuations.
- 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.
- Political and economic instability.
- Potentially adverse tax consequences.
- Higher costs associated with doing business internationally.

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 corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.

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

Our 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 intentionally or accidentally 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 members of our Google Network 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. Courts in France have held us liable for allowing advertisers to select certain trademarked terms as keywords. We are appealing those decisions. We were also subject to two lawsuits in Germany on similar matters where the courts held that we are not liable for the actions of our advertisers prior to notification of trademark rights. 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 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 another party s 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, the risk of harm from such lawsuits could be substantial.

We have also experienced an increase in patent lawsuits filed against us alleging that certain of our products and services, including Google Web Search, Google AdWords, and Google AdSense, infringe another party s patents. Adverse results in these lawsuits may include awards of substantial monetary damages, obligations to pay licensing fees and/or orders preventing 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.

A number of legislative proposals pending before the U.S. Congress, various state legislative bodies and foreign governments concern 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.

Our business is subject to a variety of U.S. and foreign laws that 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. 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.

Any failure on our part to comply with these laws and regulations may subject us to additional liabilities.

We compete internationally with local information providers and with U.S. competitors who are currently more successful than we are in various markets, and if we fail to compete effectively in international markets, our business will be harmed.

We face different market characteristics and competition outside the U.S. In certain markets, 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 improve our brand recognition and our selling efforts internationally and build stronger relationships with advertisers. We also need to better

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understand our international users and their preferences. If we fail to do so, our global expansion efforts may be more costly and less profitable than we expect.

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 may be 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, in the future, 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.

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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 or hire qualified personnel, 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. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

We have in the past maintained a rigorous, highly selective and time-consuming hiring process. We believe that our approach to hiring has significantly contributed to our success to date. As we grow, our hiring process may prevent us from hiring the personnel we need in a timely manner. In addition, as we become a more mature company, we may find our recruiting efforts more challenging. The incentives to attract, retain and motivate employees provided by our equity award grants may not be as effective as in the past. In addition, our other current and future compensation arrangements, which include cash bonuses and our TSO program, may not be successful in attracting new employees and retaining and motivating our existing employees. If we do not succeed in attracting excellent personnel or retaining or motivating existing personnel, we may be unable to grow effectively.

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 little 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.

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 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. If we are unable to attract and retain a substantial number of alternative device users to our web search 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.

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 systems are also heavily reliant on the availability of electricity. If we were to experience a major power outage, we would have to rely on back-up generators. These back-up generators may not operate properly and their fuel supply could be inadequate during a major power outage. This could result in a disruption of our business.

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

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time. At March 31, 2008, our aggregate outstanding non-cancelable guaranteed minimum revenue share commitments totaled $1.60 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 eliminate our exposure to foreign exchange fluctuations. Additionally, hedging programs expose us to risks that could adversely affect our operating 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 be exposed to unfavorable changes in currency exchange rates.

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 rates and higher than anticipated in jurisdictions where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities or by 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 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 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 March 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 March 31, 2008, our two founders and our CEO, Larry, Sergey and Eric, owned approximately 89% 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 acquiror from conducting a solicitation of proxies to elect the acquiror s own slate of directors or otherwise attempting to obtain control of our company.

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

As a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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 selling the underlying shares. The following table provides information with respect to sales by our employees of TSOs during the three month period ended March 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)**
January 1-31						
February 1-29	66,400	$ 19,789	$ 2,756	$ 298.10	$ 241.26	$ 41.52
March 1-31						
Total (except weighted-average amounts)	66,400	$ 19,789	$ 2,756	$ 298.10	$ 241.26	$ 41.52

(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. EXHIBITS

Exhibit Number		Description
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 2003
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 2003
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 2003

* Filed herewith.

Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GOOGLE INC.

Date:	May 12, 2008	By:	/s/ GEORGE REYES
			George Reyes
			Senior Vice President and Chief Financial Officer
			(Principal Financial Officer and duly authorized signatory)

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