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, 2006

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) 253-4000

(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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-acclerated filer ¨

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, 2006, the number of shares outstanding of Google s Class A common stock was 214,947,093 shares and the number of shares outstanding of Google s Class B common stock was 88,138,358 shares.

GOOGLE INC.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GOOGLE INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	As of December 31, 2005	As of March 31, 2006 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 3,877,174	$ 2,935,179
Marketable securities	4,157,073	5,493,849
Accounts receivable, net of allowance of $14,852 and $15,604	687,976	844,378
Deferred income taxes, net	49,341	26,317
Prepaid revenue share, expenses and other assets	229,507	256,234
Total current assets	9,001,071	9,555,957
Property and equipment, net	961,749	1,209,681
Goodwill	194,900	318,806
Intangible assets, net	82,783	160,573
Prepaid revenue share, expenses and other assets, non-current	31,310	49,853
Total assets	$ 10,271,813	$ 11,294,870
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 115,575	$ 145,911
Accrued compensation and benefits	198,788	118,395
Accrued expenses and other current liabilities	114,377	156,784
Accrued revenue share	215,771	267,202
Deferred revenue	73,099	80,172
Income taxes payable	27,774	211,560
Total current liabilities	745,384	980,024
Deferred revenue, long-term	10,468	17,123
Liability for stock options exercised early, long-term	2,083	1,368
Deferred income taxes, net	35,419	
Other long-term liabilities	59,502	53,087
Stockholders equity:		
Common stock, $0.001 par value: 9,000,000 shares authorized and 293,027 and 295,063 shares issued and outstanding, excluding 3,303 and 2,390 shares subject to repurchase at December 31, 2005 and March 31, 2006	293	295
Additional paid-in capital	7,477,792	7,605,177
Deferred stock-based compensation	(119,015)	
Accumulated other comprehensive income (loss)	4,019	(10,363)
Retained earnings	2,055,868	2,648,159

Total stockholders equity	9,418,957	10,243,268
Total liabilities and stockholders equity	$ 10,271,813	$ 11,294,870

See accompanying notes.

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GOOGLE INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Three Months Ended March 31, 2005	2006
	(unaudited)	
Revenues	$ 1,256,516	$ 2,253,755
Costs and expenses:		
Cost of revenues (including stock-based compensation expense of $1,573 and $2,283)(1)	546,781	904,119
Research and development (including stock-based compensation expense of $29,299 and $73,086) (1)	108,711	246,599
Sales and marketing (including stock-based compensation expense of $6,536 and $15,929) (1)	89,488	190,943
General and administrative (including stock-based compensation expense of $11,500 and $23,366) (1)	68,766	169,395
Total costs and expenses	813,746	1,511,056
Income from operations	442,770	742,699
Interest income and other, net	13,686	67,919
Income before income taxes	456,456	810,618
Provision for income taxes	87,263	218,327
Net income	$ 369,193	$ 592,291
Net income per share:		
Basic	$ 1.39	$ 2.02
Diluted	$ 1.29	$ 1.95
Number of shares used in per share calculations:		
Basic	266,106	293,896
Diluted	286,612	304,123

(1) Stock-based compensation recognized in the three months ended March 31, 2005, accounted for under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, has been reclassified to these expense lines to conform with the presentation in the three months ended March 31, 2006. As discussed in Note 1 of the accompanying notes, stock-based compensation for the three months ended March 31, 2006, is presented in conformity with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*.

See accompanying notes.

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GOOGLE INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2006
	(unaudited)	(unaudited)
Operating activities		
Net income	$ 369,193	$ 592,291
Adjustments:		
Depreciation of property and equipment	46,478	95,868
Amortization of intangibles and warrants	9,715	15,290
In-process research and development		4,000
Stock-based compensation	48,908	114,664
Excess tax benefits from stock-based award activity	77,377	
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(60,069)	(155,221)
Income taxes, net	6,044	139,242
Prepaid revenue share, expenses and other assets	(29,571)	(26,525)
Accounts payable	42,694	30,232
Accrued expenses and other liabilities	(17,767)	(39,295)
Accrued revenue share	32,085	51,216
Deferred revenue	4,535	3,042
Net cash provided by operating activities	529,622	824,804
Investing activities		
Purchases of property and equipment	(142,391)	(344,938)
Purchases of marketable securities	(1,160,160)	(13,111,471)
Maturities and sales of marketable securities	835,223	11,755,756
Acquisitions, net of cash acquired, and purchases of intangible and other assets	(5,000)	(187,964)
Net cash used in investing activities	(472,328)	(1,888,617)
Financing activities		
Proceeds from exercise of stock options, net	4,097	42,611
Excess tax benefits from stock-based award activity		77,285
Payments of principal on capital leases and equipment loans	(592)	
Net cash provided by financing activities	3,505	119,896
Effect of exchange rate changes on cash and cash equivalents	(5,100)	1,922
Net increase (decrease) in cash and cash equivalents	55,699	(941,995)
Cash and cash equivalents at beginning of year	426,873	3,877,174
Cash and cash equivalents at end of period	$ 482,572	$ 2,935,179
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 93	$ 8

Cash paid for income taxes	$	396	$	1,126
Acquisition related activities:				
Issuance of equity in connection with acquisitions, net of deferred stock-based compensation	$	2,011	$	

See accompanying notes.

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GOOGLE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Google Inc. and Summary of 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 condensed 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 condensed consolidated balance sheet as of March 31, 2006, the condensed consolidated statements of income for the three months ended March 31, 2005 and 2006, and the condensed consolidated statements of cash flows for the three months ended March 31, 2005 and 2006 are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. In our opinion, the unaudited interim condensed consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of our financial position as of March 31, 2006, our results of operations for the three months ended March 31, 2005 and 2006, and our cash flows for the three months ended March 31, 2005 and 2006. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our 2005 Annual Report on Form 10-K filed on March 16, 2006.

Use of Estimates

The preparation of interim condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to the accounts receivable and sales allowances, fair values of marketable securities and investments, fair values of acquired 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.

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GOOGLE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognition

The following table presents our revenues (in thousands):

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2006
	(Unaudited)	
Advertising revenues:		
Google web sites	$ 656,997	$ 1,297,317
Google Network web sites	584,115	928,376
Total advertising revenues	1,241,112	2,225,693
Licensing and other revenues	15,404	28,062
Revenues	$ 1,256,516	$ 2,253,755

In the first quarter of 2000, we introduced our first advertising program through which we offered advertisers the ability to place text-based ads on Google web sites targeted to users search queries. Advertisers paid us based on the number of times their ads were displayed on users search results pages and we recognized revenue at the time these ads appeared. In the fourth quarter of 2000, we launched Google AdWords, an online self-service program that enables advertisers to place text-based ads on Google web sites. AdWords is also available through our direct sales force. AdWords advertisers originally paid us based on the number of times their ads appeared on users search results pages. In the first quarter of 2002, we began offering AdWords exclusively on a cost-per-click basis, so that an advertiser pays us only when a user clicks on one of its ads. We recognize as revenue the fees charged advertisers each time a user clicks on one of the text-based ads that are displayed next to the search results on Google web sites. From January 1, 2004 until the end of the first quarter of 2005, the AdWords cost-per-click pricing structure was the only structure available to our advertisers. However, during the second quarter of 2005, we launched an AdWords program that enables advertisers to pay us based on the number of times their ads appear on Google Network member sites specified by the advertiser. We recognize as revenue the fees charged advertisers each time their ads are displayed on the Google Network member sites.

In the third quarter of 2005, we launched the Google Publication Ads Program through which we distribute our advertisers ads for publication in magazines. We recognize as revenue the fees charged advertisers when ads are published in magazines. Also in the first quarter of 2006, we acquired dMarc Broadcasting, Inc. (dMarc), a digital solutions provider for the radio broadcast industry. dMarc, now one of our wholly-owned subsidiaries, distributes our advertisers ads for broadcast by radio stations. We recognize as revenue the fees charged advertisers each time an ad is broadcasted or a listener responds to that ad. We consider the magazines and radio stations that participate in these programs to be members of our Google Network.

Google AdSense is the program through which we distribute our advertisers ads for display on the web sites of our Google Network members. In accordance with Emerging Issues Task Force (EITF) Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent* (EITF 99-19), we recognize as revenues the fees charged advertisers each time a user clicks on one of the text-based ads that are displayed next to the search results or on the content pages of our Google Network members web sites and, for those advertisers who use our cost-per impression pricing, the fees charged advertisers each time an ad is displayed on our members sites. Finally, we recognize as revenues the fees charged advertisers for ads published in the magazines or broadcasted by the radio stations of our Google Network members. These revenues are reported on a gross basis primarily because we are the primary obligor to our advertisers.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We generate fees from search services through a variety of contractual arrangements, which include per-query search fees and search service hosting fees. Revenues from set-up and support fees and search service hosting fees are recognized on a straight-line basis over the term of the contract, which is the expected period during which these services will be provided. Our policy is to recognize revenues from per-query search fees in the period queries are made and results are delivered.

We provide search services pursuant to certain AdSense agreements. We believe that search services and revenue share arrangements represent separate units of accounting pursuant to EITF 00-21 *Revenue Arrangements with Multiple Deliverables*. These separate services are provided simultaneously to the Google Network member and are recognized as revenues in the periods provided.

In the first quarter of 2006, we launched Google Video through which we make video owned by others available for download and purchase by end users. We recognize as revenue the fees we receive from end users to the extent we are the primary obligor to them; however, to the extent we are not, we recognize as revenues the fees we receive from end users net of the amounts we pay to our video content providers in accordance with EITF 99-19.

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

Deferred revenue is recorded when payments are received in advance of our performance in the underlying agreement on the accompanying condensed consolidated balance sheets.

Cost of Revenues

Cost of revenues consists primarily of traffic acquisition costs. Traffic acquisition costs consist of amounts ultimately paid to Google Network members, as well as to partners who direct search queries to our web site. These amounts are primarily based on revenue share arrangements under which we pay our Google Network members and other partners a portion of the fees we receive from our advertisers. 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. We amortize guaranteed minimum revenue share prepayments (or accrete an amount payable to a Google Network member if the payment is due in arrears) based on the number of search queries or advertisements displayed on the Google Network member s web site or the actual revenue share amounts, whichever is greater. 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. Traffic acquisition costs were $461.8 million and $722.7 million in the three months ended March 31, 2005 and 2006.

In addition, cost of revenues includes the expenses associated with the operation of our data centers, including depreciation, labor, energy and bandwidth costs, as well as credit card and other transaction fees related to processing customer transactions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock-based Compensation

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R) that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method under Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and generally requires instead that such transactions be accounted for using a fair-value-based method. We adopted SFAS 123R beginning January 1, 2006.

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

We have elected the modified prospective transition method as permitted by SFAS 123R and accordingly prior periods have not been restated to reflect the impact of SFAS 123R. Under this method, we are required to recognize stock-based compensation for all new and unvested stock-based awards that are ultimately expected to vest as the requisite service is rendered beginning January 1, 2006. Stock-based compensation is measured based on the fair values of all stock-based awards on the dates of grant.

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

SFAS 123R requires that the deferred stock-based compensation on our balance sheet on the date of adoption be netted against additional paid-in capital. At December 31, 2005, we had $119.0 million of deferred stock-based compensation which was netted against additional paid-in capital on January 1, 2006, as reflected in the accompanying Condensed Consolidated Balance Sheet at March 31, 2006.

Also, in accordance with SFAS 123R, beginning in the first quarter of 2006 we have presented the benefits of tax deductions in excess of recognized compensation expense as a cash flow from financing activities in the accompanying Condensed Consolidated Statement of Cash Flows, rather than as a cash flow from operating activities, as was prescribed under accounting rules applicable through December 31, 2005. This requirement reduces and increases the amounts we record as net cash provided by operating activities and net cash provided by financing activities, respectively. Total cash flow remains unchanged from what would have been reported under prior accounting rules.

In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB No. 107). In accordance with this Bulletin, beginning in the first quarter of 2006, we no longer present stock- based compensation separately on our statements of income. Instead we present stock-based compensation in the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

same lines as cash compensation paid to the same individuals. Stock-based compensation in the first quarter of 2005 has been reclassified to conform to the presentation in the first quarter of 2006.

We account for stock awards issued to non-employees in accordance with the provisions of SFAS 123R and EITF 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* (EITF 96-18). Under SFAS 123R and EITF 96-18, we use the BSM method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to stock-based compensation.

Prior to the adoption of SFAS 123R, we accounted for our employee stock-based compensation using the intrinsic value method prescribed by APB 25. We applied below the disclosure provisions of SFAS 123, as amended by SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure* as if the fair value method had been applied. If this method had been used, our net income and net income per share for the three months ended March 31, 2005 would have been adjusted to the pro forma amounts below (in thousands except per share data):

		Three Months Ended March 31, 2005 (unaudited)
Net income, as reported	$	369,193
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects		29,322
Deduct: Total stock-based employee compensation expense under the fair value based method for all awards, net of related tax effects		(46,280)
Net income, pro forma	$	352,235
Net income per share:		
As reported for prior period basic	$	1.39
Pro forma basic	$	1.32
As reported for prior period diluted	$	1.29
Pro forma diluted	$	1.23

In the three months ended March 31, 2006, we recognized stock-based compensation and related tax benefits of $114.7 million and $27.4 million respectively.

As a result of adopting SFAS 123R, our income before income taxes and net income for the quarter ended March 31, 2006, were $61.4 million and $46.7 million less than if we had continued to account for share-based compensation under APB 25. Furthermore, basic and diluted earnings per share for the quarter ended March 31, 2006 would have been $2.17 and $2.10 if we had not adopted SFAS 123R, compared to reported basic and diluted earnings per share of $2.02 and $1.95.

Net Income per Share

We compute net income per share in accordance with SFAS 128, *Earnings per Share*. Under the provisions of SFAS 128, basic net income per share is computed using the weighted average number of common shares outstanding during the period except that it does not include unvested common shares subject to repurchase or cancellation. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, restricted shares, restricted stock units and unvested common shares subject to repurchase or cancellation. The dilutive effect of outstanding stock

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

options, restricted shares and restricted stock units is reflected in diluted earnings per share by application of the treasury stock method.

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

	Three Months Ended March 31,	
	2005	**2006**
	(unaudited)	
Basic and diluted net income per share:		
Numerator:		
Net income	$ 369,193	$ 592,291
Denominator:		
Weighted average common shares outstanding	275,816	296,957
Less: Weighted average unvested common shares subject to repurchase or cancellation	(9,710)	(3,061)
Denominator for basic calculation	266,106	293,896
Effect of dilutive securities:		
Add:		
Weighted average stock options, restricted shares, restricted stock units and unvested common shares subject to repurchase or cancellation	20,506	10,227
Denominator for diluted calculation	286,612	304,123
Net income per share, basic	$ 1.39	$ 2.02
Net income per share, diluted	$ 1.29	$ 1.95

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally two to five years. Buildings are depreciated over periods up to 25 years. Equipment under capital leases and leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets. Construction in process is primarily related to the building of production equipment servers and leasehold improvements. Depreciation for these assets commences once they are placed in service.

Cash and Cash Equivalents and Marketable Securities

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

We determine the appropriate classification of our investments in marketable debt and equity securities at the time of purchase and reevaluate such designation at each balance sheet date. Our marketable debt and equity securities have been classified and accounted for as available for sale. We may or may not hold securities with stated maturities greater than twelve months until maturity. In response to changes in the availability of and the

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GOOGLE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

yield on alternative investments as well as liquidity requirements, we occasionally sell these securities prior to their stated maturities. As these debt and equity securities are viewed by us as available to support current operations, based on the provisions of Accounting Research Bulletin No. 43, Chapter 3A, Working Capital-Current Assets and Liabilities, equity securities, as well as debt securities with maturities beyond 12 months (such as our auction rate securities) are classified as current assets in the accompanying Condensed Consolidated Balance Sheets. These securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders equity, except for unrealized losses determined to be other than temporary which are recorded as interest income and other, net, in accordance with our policy and FASB Staff Position (FSP) Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*. Any realized gains or losses on the sale of marketable securities are determined on a specific identification method, and such gains and losses are reflected as a component of interest income and other, net.

Derivative Financial Instruments

We enter into forward foreign exchange contracts with financial institutions to reduce the risk that our cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. This program is not designed for trading or speculative purposes.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, we recognize derivative instruments as either assets or liabilities on the balance sheet at fair value. These forward exchange contracts are not accounted for as hedges and, therefore, changes in the fair value of these instruments are recorded as interest income and other, net. Neither the cost nor the fair value of these forward foreign exchange contracts was material at March 31, 2006. The notional principal of forward foreign exchange contracts to purchase U.S. dollars with foreign currencies was $477.0 and $629.5 million at December 31, 2005 and March 31, 2006, respectively. There were no other forward foreign exchange contracts outstanding at December 31, 2005 or March 31, 2006.

Note 2. Cash, Cash Equivalents and Marketable Securities

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

	As of December 31, 2005	As of March 31, 2006
		(unaudited)
Cash and cash equivalents:		
Cash	$ 1,588,515	$ 2,002,399
Cash equivalents:		
U.S. government notes and agencies	2,281,858	915,782
Money market mutual funds	6,801	16,998
Total cash and cash equivalents	3,877,174	2,935,179
Marketable securities:		
Municipal securities	1,203,209	700,965
U.S. government notes and agencies	2,906,698	4,750,852
Equity security	47,166	42,032
Total marketable securities	4,157,073	5,493,849
Total cash, cash equivalents and marketable securities	$ 8,034,247	$ 8,429,028

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GOOGLE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2005			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	$ 1,219,078	$ 28	$ (15,897)	$ 1,203,209
U.S. government notes and agencies	2,911,410	418	(5,130)	2,906,698
Equity security	5,000	42,166		47,166
Total marketable securities	$ 4,135,488	$ 42,612	$ (21,027)	$ 4,157,073

	As of March 31, 2006 (unaudited)			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Municipal securities	$ 712,284	$ 30	$ (11,349)	$ 700,965
U.S. government notes and agencies	4,773,944	7	(23,099)	4,750,852
Equity security	5,000	37,032		42,032
Total marketable securities	$ 5,491,228	$ 37,069	$ (34,448)	$ 5,493,849

Gross unrealized gains and losses on cash equivalents were not material at December 31, 2005 and March 31, 2006. We found no other-than-temporary impairments to our marketable securities in the three months ended March 31, 2006 and March 31, 2005. We incurred $7.6 million and $4.6 million of realized losses on our investments in the three months ended March 31, 2006 and March 31, 2005.

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

	As of December 31, 2005	As of March 31, 2006 (Unaudited)
Due within 1 year	$ 970,073	$ 1,992,339
Due after 1 year through 5 years	2,967,148	3,390,137
Due after 5 years through 10 years	59,122	18,350
Due after 10 years	160,730	93,023
Total marketable securities	$ 4,157,073	$ 5,493,849

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2005 and March 31, 2006, 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, 2005					
	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 and agencies	$ 2,099,408	$ (5,130)	$	$	$ 2,099,408	$ (5,130)
Municipal securities	607,990	(7,705)	513,425	(8,192)	1,121,415	(15,897)
Total	$ 2,707,398	$ (12,835)	$ 513,425	$ (8,192)	$ 3,220,823	$ (21,027)

	As of March 31, 2006					
	Less than 12 Months		12 Months or Greater		Total	
Security Description	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
			(unaudited)			
U.S. government notes and agencies	$ 4,542,391	$ (23,099)	$	$	$ 4,542,391	$ (23,099)
Municipal securities	224,230	(3,375)	435,030	(7,974)	659,260	(11,349)
Total	$ 4,766,621	$ (26,474)	$ 435,030	$ (7,974)	$ 5,201,651	$ (34,448)

Note 3. Property and Equipment

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

	As of December 31, 2005	As of March 31, 2006 (unaudited)
Information technology assets	$ 949,758	$ 1,061,797
Construction in process	211,088	349,462
Land and buildings	124,752	165,934
Leasehold improvements	115,108	153,870
Furniture and fixtures	16,719	18,505
Total	1,417,425	1,749,568
Less accumulated depreciation and amortization	455,676	539,887
Property and equipment, net	$ 961,749	$ 1,209,681

Note 4. Acquisitions

During the three months ended March 31, 2006, we acquired all of the voting interests of dMarc Broadcasting, Inc. (dMarc), a digital solutions provider for the radio broadcast industry. This transaction was accounted for as a business combination. The total purchase price was $97.6 million which primarily consisted of cash payments of $94.4 million. In addition, we are obligated to make additional cash payments of up to $1.136 billion if certain product integration, net revenue and advertising inventory targets are met through

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December 2008. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower. Substantially all of these contingent payments will be accounted for as goodwill, and the remaining amounts will be expensed, when earned. No contingent payments were earned through March 31, 2006.

During the three months ended March 31, 2006, we also acquired all of the voting interests of four other companies. One of these transactions was accounted for as a business combination. Because the remaining three transactions were with companies considered to be development stage enterprises, they were accounted for as asset purchases in accordance with EITF Issue No. 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business*. The total purchase price of this business combination and these asset purchases was $79.2 million, which primarily consisted of cash payments of $75.7 million. In addition, we are obligated to make additional cash payments of up to $17.9 million if certain performance targets are met through March 2010. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower. Substantially all of these contingent payments will be accounted for as goodwill, and the remaining amounts will be expensed, when earned.

In addition, during the three months ended March 31, 2006, we acquired certain other intangible assets for total cash payments of $15.7 million.

The following table summarizes the allocation of the purchase price for all of the above acquisitions (in thousands):

Goodwill	$ 123,906
Patents and developed technology	40,387
Customer contracts and other	52,790
Net liabilities assumed	(6,059)
Deferred tax liabilities	(22,527)
Purchased in-process research and development	4,000
Total	$ 192,497

Goodwill is not deductible for tax purposes. The developed technology, customer contracts and other intangible assets have a weighted-average useful life of 4.0 years from the date of acquisition. The amortization of these intangibles is not deductible for tax purposes.

Purchased in-process research and development of $4.0 million in the three months ended March 31, 2006 was expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. This amount is included in research and development expenses on the accompanying Condensed Consolidated Statements of Income and is not deductible for tax purposes.

Note 5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the quarter ended March 31, 2006, are as follows (in thousands):

Balance as of December 31, 2005	$ 194,900
Goodwill acquired	123,906
Balance as of March 31, 2006	$ 318,806

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

	As of December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents and developed technology	$ 120,413	$ 46,272	$ 74,141
Customer contracts and other	26,145	17,503	8,642
Total	$ 146,558	$ 63,775	$ 82,783

	As of March 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents and developed technology	$ 155,724	$ 57,942	$ 97,782
Customer contracts and other	84,011	21,220	62,791
Total	$ 239,735	$ 79,162	$ 160,573

Patents and developed technology and customer contracts and other have weighted-average useful lives from the date of purchase of 3.4 and 3.3 years.

Amortization expense of acquisition-related intangible assets for the three month ended March 31, 2006 was $15.4 million.

Estimated amortization expense for acquisition-related intangible assets on our March 31, 2006 Condensed Consolidated Balance Sheet for each of the next five years is as follows (in thousands):

2006	$ 45,945
2007	55,613
2008	37,582
2009	10,599
2010	9,535
Thereafter	1,299
	$ 160,573

Note 6. Interest Income and Other, Net

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

	Three Months Ended March 31,	
	2005	2006
	(unaudited)	
Interest income	$ 11,729	$ 78,924
Interest expense	(123)	(8)
Other	2,080	(10,997)
Interest income and other, net	$ 13,686	$ 67,919

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Contingencies

Legal Matters

Certain 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 recently have litigated similar issues in other cases in the U.S., France, Germany, Italy, Israel and Austria. Adverse results in these lawsuits may result in, or even compel, a change in this practice which could result in a loss of revenue for us, which could harm our business.

Certain entities have also filed intellectual property claims against us, alleging that features of certain of our products, including Google Web Search, Google News, Google Image Search, and Google Book Search, infringe their rights. Adverse results in these lawsuits may include awards of damages and may also result in, or even compel, a change in our business practices, which could result in a loss of revenue for us or otherwise harm our business.

From time to time, we may also become 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, 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 flow. Regardless of the outcome, litigation can have an adverse impact on us because of defense costs, diversion of management resources and other factors.

Note 8. Stockholders Equity

Stock Plans

We maintain the 1998 Stock Plan, the 2000 Stock Plan, the 2003 Stock Plan, the 2003 Stock Plan (No. 2), the 2003 Stock Plan (No. 3), the 2004 Stock Plan and plans assumed through acquisitions which are collectively referred to as the Stock Plans. Under our Stock Plans, incentive and nonqualified stock options or rights to purchase common stock may be granted to eligible participants. Options must generally be priced to be at least 85% of our common stock s fair market value at the date of grant (100% in the case of incentive stock options). Options are generally granted for a term of ten years. Options granted under the Stock Plans generally vest 25% after the first year of service and ratably each month over the remaining 36 month period contingent upon employment with us on the date of vest. Options granted under plans other than the 2004 Stock Plan may be exercised prior to vesting. We have also issued restricted stock units (RSUs) and restricted shares under our Stock Plans. An RSU award is an agreement to issue shares of our stock at the time of vest. RSUs issued to new employees vest over four years with a yearly cliff contingent upon employment with us on the dates of vest. These RSUs vest from zero to 37.5 percent of the grant amount at the end of each of the four years from date of hire based on the employee s performance. RSUs under the Founders Award programs are issued to individuals on teams that have made extraordinary contributions to Google. These awards vest quarterly over four years contingent upon employment with us on the dates of vest.

We estimated the fair value of each option award on the date of grant using the Black-Scholes-Merton (BSM) valuation model. Our assumptions about stock-price volatility have been based exclusively on the implied volatilities of publicly traded options to buy our stock with contractual terms closest to the expected life of

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options granted to our employees applying the guidance provided by SAB 107. In addition, our assumptions about the expected term have been based primarily on that of companies that have option vesting and contractual terms, expected stock volatility and employee demographics and physical locations that are similar to ours. We have used this comparable data because we have limited relevant historical information to support the expected exercise behavior of our employees who have been granted options recently. This relevant historical information is limited because our stock has been publicly traded only since August 2004, and the fair market value of our stock has increased substantially during this time. Accordingly, the exercise behavior of employees who have been granted options recently may be different than that of employees who have exercised their significantly in-the-money options after the initial public offering. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Forfeitures were estimated based on historical experience.

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, 2005	Three Months Ended March 31, 2006
	(unaudited)	
Risk-free interest rate	3.64%	4.63%
Expected volatility	40%	40%
Expected life (in years)	3.0	3.1
Dividend yield		
Weighted-average estimated fair value of options granted during the period	$ 59.32	$ 128.21

The following table summarizes the activity for outstanding stock options for the three months ended March 31, 2006:

	Options Outstanding	
	Number of Shares	Weighted-Average Exercise Price
	(unaudited)	
Balance at December 31, 2005	18,589,646	$ 113.51
Options granted	364,534	$ 390.94
Options exercised	(2,045,336)	$ 39.40
Options canceled/forfeited/expired	(93,432)	$ 50.54
Balance at March 31, 2006	16,815,412	$ 126.75

The weighted average remaining contractual terms for all outstanding stock options and those exercisable at March 31, 2006 were 8.1 years and 7.0 years. The aggregate intrinsic values for all outstanding stock options and those outstanding and exercisable at March 31, 2006 were $3.8 billion and $2.9 billion, based on our closing stock price of $390.00 at March 31, 2006. Also, the number of options outstanding at March 31, 2006 includes 2,390,254 options granted and exercised subsequent to March 21, 2002 that are unvested at March 31, 2006, in accordance with EITF 00-23, *Issues Related to Accounting for Stock Compensation Under APB Opinion No. 25 and FASB Interpretation No. 44* (EITF 00-23). However, the computations of the weighted-average exercise prices, weighted average remaining contractual term and aggregate intrinsic value for all stock options outstanding and those exercisable do not consider these unvested shares. The aggregate intrinsic value of all options exercised during the three months ended March 31, 2006 was $388.1 million. The total grant date fair value of stock options vested during the three months ended March 31, 2006 was $77.0 million.

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As of March 31, 2006, there was $371.7 million of unrecognized compensation cost related to outstanding stock options, net of forecasted forfeitures. This amount is expected to be recognized through year 2011. To the extent forfeiture rates are different than we have anticipated, stock-based compensation related to these awards will be different from our expectations.

The following table summarizes the activity for our unvested restricted stock units for the three months ended March 31, 2006:

	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
	(unaudited)	
Unvested at December 31, 2005	920,057	$ 324.38
Granted	279,096	$ 376.57
Vested	(12,889)	$ 391.88
Forfeited	(5,115)	$ 320.71
Unvested at March 31, 2006	1,181,149	$ 347.33

As of March 31, 2006, there was $293.9 million of unrecognized compensation cost related to unvested restricted stock units, net of forecasted forfeitures. This amount is expected to be recognized through year 2010. To the extent forfeiture rates are different than we have anticipated, stock-based compensation related to these awards will be different from our expectations.

The following table summarizes additional information regarding outstanding and exercisable stock options at March 31, 2006:

	Options Outstanding					Options Exercisable	
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
$ 0.05 $ 85.00	10,111,033	2,390,254	7,720,779	7.2	$ 14.76	7,486,041	$ 14.45
$117.84 $198.41	2,597,658		2,597,658	8.8	$ 175.87	422,923	$ 173.94
$205.96 $298.91	1,881,458		1,881,458	9.2	$ 272.80	7,358	213.50
$300.97-$398.15	1,920,754		1,920,754	9.5	$ 319.51	2,048	$ 318.03
$401.78 $471.63	304,509		304,509	9.7	$ 428.98		
$ 0.05 $471.63	16,815,412	2,390,254	14,425,158	8.1	$ 126.75	7,918,370	$ 23.23

The number of options outstanding at March 31, 2006 includes 2,390,254 of options granted and exercised subsequent to March 21, 2002 that are unvested at March 31, 2006, in accordance with EITF 00-23. However, the computations of the weighted-average exercise prices and the weighted average remaining life in the table above do not consider these unvested shares.

Note 9. Information about Geographic Areas

Our chief operating decision-makers (i.e. chief executive officer and his direct reports) review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

geographic region for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable 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. No single foreign country, other than the United Kingdom, accounted for more than ten percent of total revenues in the three months ended March 31, 2005 or 2006. The following table sets forth revenues and long-lived assets by geographic area (in thousands):

	Three Months Ended March 31,	
	2005	2006
	(unaudited)	
Revenues:		
United States	$ 771,812	$ 1,317,521
United Kingdom	186,215	342,871
Rest of the world	298,489	593,363
Total revenues	$ 1,256,516	$ 2,253,755

	As of December 31, 2005	As of March 31, 2006 (unaudited)
Long-lived assets:		
United States	$ 1,080,236	$ 1,527,257
International	190,506	211,656
Total long-lived assets	$ 1,270,742	$ 1,738,913

Note 10. Subsequent Events

In April, 2006, we issued 5,300,000 shares of our common stock upon the closing of a follow-on public stock offering for net proceeds of approximately $2.064 billion.

In April 2006, we completed our $1.0 billion cash purchase of a five percent equity interest in a wholly-owned subsidiary of Time Warner, Inc. that owns all of the outstanding interests of America Online, Inc. (AOL). Previously, in March 2006, we entered into certain commercial arrangements with AOL. We believe the terms of those agreements are at fair value.

Our investment in this non-marketable equity security will be accounted for at historical cost. In addition, this investment will be subject to a periodic impairment review. To the extent any impairment is considered other-than-temporary, this investment would be written down to its fair value and the loss would be recorded in interest income and other, net.

In April 2006, we received a preliminary approval for settlement of the Lane s Gift class action lawsuit in Arkansas which will require us to pay plaintiffs attorneys fees and issue total AdWords credits of no more than $60 million. The Adwords credits will be accounted for as a reduction to revenues in the periods they are redeemed. Plaintiffs attorneys fees were estimated to be $30 million and were expensed in the three months ended March 31, 2006.

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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 of our operations, business and revenues and the growth rate of our 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.*
- *that our operating margin may decrease as we invest in our infrastructure.*
- *that we will continue to employ a significant number of temporary employees.*
- *regarding our future stock-based compensation charges.*
- *that we will continue to pay most of the Google AdSense fees we receive from advertisers to our Google Network members.*
- *that our cost of revenues will increase in 2006 primarily as a result of anticipated increases in traffic acquisition and data center costs.*
- *that research and development, sales and marketing and general and administrative expenses will increase in the future.*
- *regarding our expansion into international markets.*
- *regarding our spending on property and equipment, including costs related to information technology infrastructure and land and buildings.*
- *regarding our income tax rates, tax liabilities and the expected higher proportion of our earnings we expect our Irish subsidiary to recognize.*
- *regarding the sufficiency of our existing cash, cash equivalents, marketable securities and cash generated from operations.*
- *regarding our expected further contributions to, and investments in, philanthropic endeavors.*

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. The following discussion should be read in conjunction with our Annual Report on Form 10-K filed March 16, 2006, and the consolidated financial statements and notes thereto. 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.*

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The following discussion and analysis of our financial condition and results of operations should be read together with our condensed 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 our Google AdWords program, an auction-based advertising program that enables them to deliver relevant ads targeted to search results or web content. Our AdWords program provides advertisers with a cost-effective way to deliver ads to customers across Google sites and through the Google Network under our AdSense program.

Web sites. We provide members of our Google Network our Google AdSense program, which allows these members to deliver AdWords ads that are relevant to the search results or content on their web sites. We share most of the fees these ads generate with our Google Network members creating an important revenue stream for them.

How We Generate Revenue

We derive most of our revenues from fees we receive from our advertisers.

Our original business model consisted of licensing our search engine services to other web sites. In the first quarter of 2000, we introduced our first advertising program. Through our direct sales force we offered advertisers the ability to place text-based ads on our web sites targeted to our users search queries under a program called Premium Sponsorships. Advertisers paid us based on the number of times their ads were displayed on users search results pages, and we recognized revenue at the time these ads appeared. In the fourth quarter of 2000, we launched Google AdWords, an online self-service program that enables advertisers to place targeted text-based ads on our web sites. AdWords customers originally paid us based on the number of times their ads appeared on users search results pages. In the first quarter of 2002, we began offering AdWords exclusively on a cost-per-click basis, which means that an advertiser pays us only when a user clicks on one of its ads. AdWords is also available through our direct sales force.

Effective beginning the first quarter of 2004 until the end of the first quarter of 2005, the AdWords cost-per-click pricing structure was the only pricing structure available to our advertisers. However, during the second quarter of 2005, we launched an AdWords cost-per-impression program 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 text-based 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 is the program through which we distribute our advertisers AdWords ads for display on the web sites of our Google Network members. Our AdSense program includes AdSense for search and AdSense for content. AdSense for search, launched in the first quarter of 2002, is our service for distributing relevant ads from our advertisers for display with search results on our Google Network members sites. AdSense for content, launched in the first quarter of 2003, is our service for distributing ads from our advertisers that are relevant to content on our Google Network members sites. Our advertisers pay us a fee each time a user clicks on one of

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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. Members of the Google Network do not pay any fees associated with the use of our AdSense program on their web sites. Some of our Google Network members separately license our web search technology and pay related licensing fees to us. 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. Agreements with our larger members are individually negotiated. The standard agreements have no stated term and are terminable at will. The negotiated agreements vary in duration. Both the standard agreements and the negotiated agreements contain provisions requiring us to share with the Google Network member a portion 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. The standard agreements have uniform revenue share terms. The non-standard agreements vary as to revenue share terms and are heavily negotiated.

In the third quarter of 2005, we launched the Google Publication Ads Program through which we distribute our advertisers ads for publication in magazines. We recognize as revenue the fees charged advertisers when their ads are published in magazines. Also, in the first quarter of 2006, we acquired dMarc Broadcasting, Inc. (dMarc), a digital solutions provider for the radio broadcast industry. dMarc, now one of our wholly owned subsidiaries, distributes our advertisers ads for broadcast by radio stations. We recognize as revenue the fees charged advertisers each time an ad is broadcasted or a listener responds to that ad. We consider the magazines and radio stations that participate in these programs to be members of our Google Network.

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 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.

The number and prominence 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.

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

Our minimum fee per click.

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Advertising revenues made up no less than 98% of our revenues in the three months ended March 31, 2005 and 2006. 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. In addition, in the first quarter of 2006 we launched Google Video through which we make video content owned by others available for download and purchase by end users. We recognize as revenue the fees we receive from end users to the extent we are the primary obligor to them; however, to the extent we are not the primary obligor, we recognize as revenues the fees we receive from the end users net of the amounts we pay to our video content providers.

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 take steps to improve the relevance of the ads displayed on our web sites, such as removing ads that generate low click-through rates, that 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 growth rates. Prior to the second quarter of 2004, these seasonal trends may have been masked by the substantial quarter over quarter growth of Internet traffic focused on commercial transactions and ultimately by the substantial quarter over quarter growth in our revenues.

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 revenue 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.

Our operating margin may decrease as we invest in building the necessary employee and systems infrastructures required to manage our anticipated growth. We have experienced and expect to continue to experience substantial growth in our operations as we invest significantly in our research and development programs, expand our user, advertiser and Google Network member bases and increase our presence in international markets, as well as promote the distribution of our Google toolbar and other products in order to make our services easier to access. This growth has required us to continually hire new personnel and make substantial investments in property and equipment. Our full-time employee headcount has almost doubled over the last twelve months, growing from 3,482 at March 31, 2005 to 6,790 at March 31, 2006. Also, we have employed a significant number of temporary employees in the past and expect to continue to do so in the foreseeable future. Our capital expenditures have grown from $142.4 million in the three months ended March 31, 2005 to $344.9 million in the three months ended March 31, 2006. We expect the annual growth rate of our investments in property and equipment for 2006, including information and technology infrastructure and land and buildings, to be substantially greater than our annual revenue growth rate for 2006. Our capital spending between periods may fluctuate significantly depending on the availability and price of suitable property and equipment. Management of our growth will continue to require the devotion of significant employee and other resources. We may not be able to manage this growth effectively. Finally, investments in our business are generally made with a focus on our long-term operations. Accordingly, there may be little or no linkage between our spending and our revenues in any particular quarter.

Our international revenues have grown as a percentage of our total revenues to 42% in the three months ended March 31, 2006 from 38% in the three months ended December 31, 2005 and from 39% in the three months ended March 31, 2005. 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. 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 2006 or thereafter.

We currently anticipate that our effective tax rate will be approximately 30% in 2006 compared to 31.6% in 2005, primarily because we expect that our Irish subsidiary will recognize proportionately more of our earnings in 2006 compared to 2005, and such earnings are taxed at a lower statutory tax rate than in the U.S. However, if future earnings recognized by our Irish subsidiary are not as proportionately great as we expect, our effective tax rate will be higher than we currently expect.

Results of Operations

The following is a more detailed discussion of our financial condition and results of operations for the periods presented.

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

	Three Months Ended		
		December 31,	
	March 31, 2005	2005	March 31, 2006
Consolidated Statements of Income Data:			
Revenues	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of revenues(1)	43.5	40.5	40.1
Research and development(1)	8.7	9.9	10.9
Sales and marketing(1)	7.1	8.5	8.5
General and administrative(1)	5.5	6.7	7.5
Contribution to Google Foundation		4.7	
Total costs and expenses	64.8	70.3	67.0
Income from operations	35.2	29.7	33.0
Interest income and other, net	1.1	3.6	3.0
Income before income taxes	36.3	33.3	36.0
Provision for income taxes	6.9	13.9	9.7
Net income	29.4%	19.4%	26.3%

(1) Stock-based compensation recognized in the three months ended March 31, 2005, accounted for under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, has been reclassified to these expense lines to conform with the presentation in the three months ended March 31, 2006. As discussed in Note 1 of the Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q, stock-based compensation for the three months ended March 31, 2006, is presented in conformity with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*.

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Revenues

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

	Three Months Ended March 31, 2005	Three Months Ended December 31, 2005	Three Months Ended March 31, 2006
Advertising revenues:			
Google web sites	$ 656,997	$ 1,098,213	$ 1,297,317
Google Network web sites	584,115	798,573	928,376
Total advertising revenues	1,241,112	1,896,786	2,225,693
Licensing and other revenues	15,404	22,307	28,062
Revenues	$ 1,256,516	$ 1,919,093	$ 2,253,755

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, 2005	Three Months Ended December 31, 2005	Three Months Ended March 31, 2006
Advertising revenues:			
Google web sites	52%	57%	58%
Google Network web sites	47	42	41
Total advertising revenues	99	99	99
Google web sites as % of advertising revenues	53	58	58
Google Network web sites as % of advertising revenues	47	42	42
Licensing and other revenues	1%	1%	1%

Growth in our revenues in the three months ended March 31, 2006 compared to the three months ended March 31, 2005 and the three months ended December 31, 2005 resulted primarily from growth in advertising revenues. The advertising revenue growth 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 realized. The increase in the number of paid clicks and ads displayed through our programs was due to an increase in aggregate traffic both on our web sites and those of our Google Network members, an increase in the number of Google Network members, certain improvements in the monetization of increased traffic on our web sites and our Google Network member sites and the continued global expansion of our advertising base.

The sequential quarterly revenue growth rate decreased from 21.6% from the three months ended September 30, 2005 to the three months ended December 31, 2005, to 17.4% from the three months ended December 31, 2005 to the three months ended March 31, 2006. In addition, the sequential quarterly revenue growth rate from our web sites decreased from 24.1% from the three months ended September 30, 2005 to the three months ended December 31, 2005, to 18.1% from the three months ended December 31, 2005 to the three months ended March 31, 2006, and the sequential quarterly revenue growth rate from our Google Network members web sites decreased from 18.3% from the three months ended September 30, 2005 to the three months ended December 31, 2005, to 16.3% from the three months ended December 31, 2005 to the three months ended March 31, 2006. These decreases in the rates of sequential quarterly growth are primarily the result of our higher revenue levels and seasonal slowdowns in Internet usage and commercial queries.

Revenues realized through the Google Publication Ads Program, our radio advertising efforts and Google Video were not material in any of the periods presented.

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Licensing and other revenues increased by $5.8 million or 25.8% from the three months ended December 31, 2005 to the three months ended March 31, 2006 primarily as a result of increased sales of our Search Appliances.

We believe that the increase in the number of paid clicks and ads displayed through our programs is the result of the relevance and quality of both the search results and advertisements displayed, which results in more searches, advertisers, and Google Network members and other partners. We expect that our revenue growth rates will generally decline in the future as a result of increasing competition and the difficulty of maintaining growth rates as our revenues increase to higher levels.

In April 2006, we received a preliminary approval for settlement of the Lane s Gift class action lawsuit in Arkansas which will require us to pay plaintiffs attorneys fees and issue total AdWords credits of no more than $60 million. The AdWords credits will be accounted for as a reduction to revenues in the periods they are redeemed. See further discussion below of the settlement of the Lane s Gift class action lawsuit under *General and Administrative*.

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.

		Three Months Ended	
	March 31, 2005	**December 31, 2005 (unaudited)**	**March 31, 2006**
United States	61%	62%	58%
United Kingdom	15%	14%	15%
Rest of the world	24%	24%	27%

The growth in international revenues in the three months ended March 31, 2006 compared to the three months ended March 31, 2005 and the three months ended December 31, 2005 resulted largely from increased acceptance of our advertising programs and increases in our direct sales resources and customer support operations in international markets and our continued progress in developing localized versions of our products for these international markets. Furthermore, the growth in international revenues from the three months ended December 31, 2005 to the three months ended March 31, 2006 also results from seasonally stronger traffic and monetization in certain countries compared to the U.S.

In addition, the strength of the U.S. dollar relative to other foreign currencies (primarily the Euro and the Japanese Yen) in the three months ended March 31, 2006 compared to the three months ended March 31, 2005 had an unfavorable impact on our international revenues. Had foreign exchange rates remained constant in these periods, our revenues would have been approximately $65.0 million or 0.3% higher. The impact on international revenues due to the strength of the dollar relative to other foreign currencies in the three months ended March 31, 2006 compared to the three months ended December 31, 2005 was not material.

While international revenues in each of the periods presented accounted for far less than half of our total revenues, more than half of our user traffic during these periods came from outside the U.S. 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 2006 or thereafter. See Note 9 of Notes to Condensed 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 Google Network members, as well as to partners who direct search queries to our web site. These amounts are primarily based on revenue share arrangements under which we pay these

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Google Network members and other partners a portion of the fees we receive from our advertisers. 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. We amortize guaranteed minimum revenue share prepayments (or accrete an amount payable to a Google Network member if the payment is due in arrears) based on the number of search queries or advertisements displayed on the Google Network member s web site or the actual revenue share amounts, whichever is greater. 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.

The following table presents our traffic acquisition costs (dollars in millions), and traffic acquisition costs as a percentage of advertising revenues, for the periods presented.

	Three Months Ended		
	March 31, 2005	**December 31, 2005 (unaudited)**	**March 31, 2006**
Traffic acquisition costs	$ 461.8	$ 628.9	$ 722.7
Traffic acquisition costs as a percentage of advertising revenues	37.2%	33.2%	32.5%

In addition, other cost of revenues includes the expenses associated with the operation of our data centers, including depreciation, labor, energy and bandwidth costs, as well as credit card and other transaction fees related to processing customer transactions.

Cost of revenues increased by $127.1 million to $904.1 million (or 40.1% of revenues) in the three months ended March 31, 2006, from $777.0 million (or 40.5% of revenues) in the three months ended December 31, 2005. This increase in dollars was primarily the result of additional traffic acquisition costs, the depreciation of additional information technology assets purchased in the current and prior periods, other additional data center costs and additional credit card and other transaction fees. There was an increase in traffic acquisition costs of $93.8 million primarily as a result of more advertiser fees generated through our AdSense program and an increase in data center costs of $15.8 million primarily as a result of the depreciation of additional information technology assets purchased in the current and prior periods as well as additional labor required to manage the data centers. In addition, there was an increase in credit card and other transaction processing fees of $7.0 million resulting from more advertiser fees being generated through AdWords. The decrease in cost of revenues as a percentage of revenues was primarily the result of proportionately greater revenues from our web sites compared to our Google Network members web sites.

Traffic acquisition costs as a percentage of advertising revenues decreased from 33.2% in the three months ended December 31, 2005 to 32.5% in the three months ended March 31, 2006. The reason for this decrease 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, and an increase in the proportion of our AdSense revenues coming from agreements with more favorable revenue share arrangements.

Cost of revenues increased by $357.3 million to $904.1 million (or 40.1% of revenues) in the three months ended March 31, 2006, from $546.8 million (or 43.5% of revenues) in the three months ended March 31, 2005. This increase in dollars was primarily the result of additional traffic acquisition costs, the depreciation of additional information technology assets purchased in the current and prior periods, other additional data center costs and additional credit card and other transaction fees. There was an increase in traffic acquisition costs of $260.9 million primarily resulting from more advertiser fees generated through our AdSense program, and an increase in data center costs of $61.0 million primarily resulting from the depreciation of additional information technology assets purchased in the current and prior periods as well as additional labor required to manage the data centers. In addition, there was an increase in credit card and other transaction processing fees of $14.7

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million resulting from more advertiser fees being generated through AdWords. The decrease in cost of revenues as a percentage of revenues was primarily the result of proportionately greater revenues from our web sites compared to our Google Network members web sites.

Traffic acquisition costs as a percentage of advertising revenues decreased from 37.2% in the three months ended March 31, 2005 to 32.5% in the three months ended March 31, 2006. The reason for this decrease 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, and an increase in the proportion of our AdSense revenues coming from agreements with more favorable revenue share arrangements.

We expect cost of revenues to continue to increase in dollars in 2006 compared to 2005, primarily as a result of forecasted increases in traffic acquisition costs, data center costs, credit card and other transaction fees and other costs. However, traffic acquisition costs as a percentage of advertising revenues may fluctuate in the future based on a number of factors, including the following:

- the relative growth rates of revenues from our web sites and from our Google Network members web sites;
- whether we are able to enter into more AdSense arrangements that provide for lower revenue share obligations or whether increased competition for arrangements with existing and potential Google Network members results in less favorable revenue share arrangements, and
- 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.

Research and Development. 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 by $56.7 million to $246.6 million (or 10.9% of revenues) in the three months ended March 31, 2006, from $189.9 million (or 9.9% of revenues) in the three months ended December 31, 2005, primarily due to an increase in stock-based compensation expense of $40.3 million (see detailed discussion below). Labor and facilities related costs increased $8.1 million as a result of 21% and 38% increases in research and development headcount from December 31, 2005 and September 30, 2005 to March 31, 2006. This $8.1 million increase would have been greater if not for the disproportionately large increase to our annual bonus accrual recorded in the three months ended December 31, 2005 as a result of our better than expected 2005 financial performance. In addition, there was an increase of $5.9 million in the amortization of developed technology resulting from acquisitions in current and prior periods.

Research and development expenses increased by $137.9 million to $246.6 million (or 10.9% of revenues) in the three months ended March 31, 2006, from $108.7 million (or 8.7% of revenues) in the three months ended March 31, 2005, primarily due to an increase in labor and facilities related costs of $69.2 million as a result of a 123% increase in research and development headcount from March 31, 2005 to March 31, 2006, and an increase in stock-based compensation cost of $43.8 million (see detailed discussion below). In addition, there was an increase in depreciation and related expenses of $11.1 million primarily as a result of additional information technology assets purchased over the fifteen-month period ended March 31, 2006, and an increase of $7.5 million in amortization of developed technology acquired in current and prior years.

We anticipate that research and development expenses will increase in dollar amount and may increase as a percentage of revenues in 2006 and future periods compared to 2005 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, and because we expect greater stock-based compensation expenses primarily because of our adoption of SFAS 123R on January 1, 2006 (see detailed discussion below).

Sales and Marketing. 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 promotional and advertising expenditures.

Sales and marketing expenses increased $28.3 million to $190.9 million (or 8.5% of revenues) in the three months ended March 31, 2006, from $162.6 million (or 8.5% of revenues) in the three months ended December 31, 2005. This increase in dollars was primarily due to $12.0 million in expenses associated with our annual sales conference held in the first quarter of 2006, as well as an increase in stock based compensation of $8.1 million (see detailed discussion below) and in labor and facilities related costs of $7.4 million mostly as a result of a 18% and 33% increase in sales and marketing headcount from December 31, 2005 and September 30, 2005 to March 31, 2006. However, this $7.4 million increase would have been greater if not for the disproportionately large increase to our annual bonus accrual recorded in the three months ended December 31, 2005 as a result of our better than expected 2005 financial performance.

Sales and marketing expenses increased $101.4 million to $190.9 million (or 8.5% of revenues) in the three months ended March 31, 2006, from $89.5 million (or 7.1% of revenues) in the three months ended March 31, 2005. This increase was primarily due to an increase in labor and facilities related costs of $40.5 million mostly as a result of a 69% increase in sales and marketing headcount from March 31, 2005 to March 31, 2006, an increase in promotional and advertising expenses of $34.9 million, a majority of which were related to Google Toolbar and other product distribution costs, an increase of $9.4 million in stock-based compensation (see detailed discussion below) and an increase in expenses associated with our annual sales conference held in the first quarter of each year of approximately $8.0 million.

We anticipate sales and marketing expenses will continue to increase in dollar amount and may increase as a percentage of revenues in 2006 and future periods compared to 2005 as we continue to expand our business on a worldwide basis. A significant portion of these increases relate to our plan to increase promotional and advertising expenditures, primarily through increases in expenditures related to certain toolbar and other product distributions, and to hire additional personnel to increase the level of service we provide to our advertisers and Google Network members. We also plan to add a significant number of international sales personnel to support our worldwide expansion. We also expect greater stock-based compensation expenses primarily because of our adoption of SFAS 123R on January 1, 2006 (see detailed discussion below).

General and Administrative. 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 $39.5 million to $169.4 million (or 7.5% of revenues) in the three months ended March 31, 2006, from $129.9 million (or 6.7% of revenues) in the three months ended December 31, 2005. This increase was primarily due to the recognition of $30.0 million in estimated plaintiffs attorneys expenses related to the preliminary settlement of the Lane s Gift class action lawsuit. Furthermore, there was an increase in labor and facilities related costs of $3.4 million primarily as a result of 18% and 37% increase in headcount from December 31, 2005 and September 30, 2005 to March 31, 2006. However, this $3.4 million increase would have been greater if not for the disproportionately large increase to our annual bonus accrual recorded in the three months ended December 31, 2005 as a result of our better than expected 2005 financial performance. Also, stock based compensation expense increased $7.5 million (see detailed discussion below). In addition, depreciation and related expenses increased $5.5 million primarily as a result of additional information technology assets purchased over the six month period ended March 31, 2006. The additional personnel and depreciation and related expenses are the result of the growth of our business. These increases were partially offset by a decrease in bad debt expense of $7.0 million primarily related to collections of previously reserved receivables.

General and administrative expenses increased $100.6 million to $169.4 million (or 7.5% of revenues) in the three months ended March 31, 2006, from $68.8 million (or 5.5% of revenues) in the three months ended March 31, 2005. This increase was primarily due to the recognition of $30.0 million in estimated plaintiffs attorneys expenses related to the preliminary settlement of the Lane s Gift class action lawsuit. Furthermore, there was an increase in labor and facilities related costs of $29.3 million, primarily as a result of a 94% increase in headcount from March 31, 2005 to March 31, 2006, an increase in professional services fees of $17.4 million, and an increase in stock based compensation of $11.9 million (see detailed discussion below). In addition, depreciation and related cost increased $9.7 million primarily as a result of additional information technology assets purchased over the fifteen month period ended March 31, 2006. The additional personnel, professional services and depreciation and related expenses are the result of the growth of our business.

As we expand our business and incur additional expenses associated with being a public company, we believe general and administrative expenses will increase in dollar amount and may increase as a percentage of revenues in 2006 and future periods compared to 2005. We also expect greater stock-based compensation expenses primarily because of our adoption of SFAS 123R on January 1, 2006 (see detailed discussion below).

Contribution to Google Foundation. In the three months ended December 31, 2005, we made a non-recourse, non-refundable $90.0 million contribution to the Google Foundation, a nonprofit related party of Google. As a result, this contribution was recorded as an expense in the period made. We do not expect to make further donations to the Google Foundation for the foreseeable future.

Stock-Based Compensation.

The following is a discussion of the accounting for our stock awards through the end of 2005 under the accounting rules then in effect:

We accounted for employee stock-based compensation using the intrinsic value method under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). Under APB 25, deferred stock-based compensation for options granted to employees is equal to its intrinsic value, determined as the difference between the exercise prices and the values of the underlying stock on the dates of grant.

Prior to our initial public offering we typically granted stock options at exercise prices equal to or less than the value of the underlying stock as determined by our board of directors on the date of option grant. For purposes of financial accounting, we applied hindsight within each year or quarter prior to our initial public offering to arrive at reassessed values for the shares underlying these options. We recognized the difference between the exercise prices and the reassessed values as stock-based compensation over the vesting periods on an accelerated basis.

After the initial public offering, we have generally granted options at exercise prices equal to the fair market value of the underlying stock on the dates of option grant. As a result, only an immaterial amount of stock-based compensation was recognized over the vesting periods on an accelerated basis.

In the fourth quarter of 2004, we began granting restricted stock units (RSUs) to certain employees under our Founders Award and other programs. Under these programs, the fair values of the underlying stock on the dates of grant are recognized as stock-based compensation over the four year vesting periods on an accelerated basis. In the second quarter of 2005, we began granting RSUs to all newly hired employees. These RSUs vest from zero to 37.5 percent of the grant amount at the end of each of the four years from date of hire based on the employee s performance. We recognized compensation expense for these RSUs under the variable method based on the fair market value of the underlying shares at the end of each quarter within the vesting periods.

On January 1, 2006, we adopted SFAS 123R using the modified-prospective method. Under this method, we recognize stock-based compensation over the related service periods for any stock-awards issued after

December 31, 2005, as well as for all stock awards issued prior to January 1, 2006 for which the requisite service has not been provided as of January 1, 2006 because these awards are unvested. Stock-based compensation is measured based on the fair values of all stock awards on the dates of grant.

We have elected to use the Black-Scholes-Merton (BSM) option-pricing model to determine the fair value of stock-based awards under SFAS 123R, consistent with that used for pro forma disclosures under SFAS No. 123, *Accounting for Stock-Based Compensation*.

We continue to recognize stock-based compensation using the accelerated method for all stock awards issued prior to January 1, 2006, other than RSUs issued to new employees that vest based on the employee s performance for which we use the straight-line method. We elected to recognize stock-based compensation using the straight-line method for all stock awards issued after January 1, 2006, which will likely result in the recognition of less stock-based compensation over at least the next several years compared to that which would have been recognized had we continued to use the accelerated method.

SFAS 123R requires that the deferred stock-based compensation on our balance sheet on the date of adoption be netted against additional paid-in capital. At December 31, 2005, we had $119.0 million of deferred stock-based compensation which had been netted against additional paid-in capital on January 1, 2006, as reflected in the accompanying Condensed Consolidated Balance Sheet at March 31, 2006.

As noted above, prior to the adoption of SFAS 123R, we accounted for RSUs issued to new employees that vest based on the employee s performance under the variable method, under which stock-based compensation is measured based on the fair value of the underlying shares at the end of each quarter within the vesting periods. As noted above, under SFAS 123R stock-based compensation is measured based on the fair values of the underlying shares on the dates of grant for all such outstanding RSUs. As a result, to the extent the fair value of the underlying shares is greater at the end of each quarter within the vesting periods compared to the fair values on the dates of grant, then we will recognize less stock-based compensation than we would have had we continued to use the variable method.

SFAS 123R requires compensation expense to be recognized based on awards ultimately expected to vest. As a result, forfeitures need to be estimated on the date of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. On January 1, 2006, we began to estimate forfeitures based on our historical experience to determine stock-based compensation to be recognized. For the periods prior to January 1, 2006, we accounted for forfeitures as they occurred.

In addition, we continue to account for stock awards issued to non-employees in accordance with the provisions of SFAS 123R and EITF 96-18 under which we use the BSM method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to stock-based compensation.

Stock-based compensation increased $56.5 million to $114.7 million (or 5.1% of revenues) in the three months ended March 31, 2006 from $58.2 million (or 3.0% of revenues) in the three months ended December 31, 2005. This increase was primarily a result of our adoption of SFAS 123R on January 1, 2006 under which stock-based compensation was recognized using the fair-value-based method as compared to the intrinsic value method under APB 25.

Stock-based compensation increased $65.8 million to $114.7 million (or 5.1% of revenues) in the three months ended March 31, 2006 from $48.9 million (or 3.9% of revenues) in the three months ended March 31, 2005. This increase was primarily resulted from our adoption of SFAS 123R on January 1, 2006 under which stock-based compensation was recognized using the fair-value-based method as compared to the intrinsic value method under APB 25.

We expect stock-based compensation to be approximately $370.0 million in 2006 and $410.3 million 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, 2006 and stock awards that have been or may be granted to non-employees. In addition, to the extent forfeiture rates are different than we have anticipated stock-based compensation related to these awards will be different from our expectations.

At December 31, 2005, there were 202,090 unvested options held by non-employees with a weighted-average exercise price of $3.59 and a weighted-average 25 months remaining vesting period. These options generally vest on a monthly and ratable basis. No options or other stock awards that vest over time were granted to non-employees in the quarter ended March 31, 2006.

Interest Income and Other, Net

Interest income and other of $67.9 million in the three months ended March 31, 2006 was primarily comprised of $78.9 million of interest income earned on our cash, cash equivalents and marketable securities balances. In addition, we recognized $1.0 million of rental income related to buildings we own. These income sources were partially offset by $7.6 million of realized losses on sales of marketable securities, and $4.5 million of net foreign exchange losses as a result of (i) the forward contracts that we entered into to purchase U.S. dollars with foreign currencies to offset the foreign exchange risk on certain intercompany assets and (ii) the net monetary assets denominated in currencies other than the local currencies.

Interest income and other of $13.7 million in the three months ended March 31, 2005 was primarily the result of $11.7 million of interest income earned on our cash, cash equivalents and marketable securities balances. In addition, we recognized $2.4 million of net foreign exchange gains as a result of (i) the forward contracts that we entered into to purchase U.S. dollars with Euros to offset the foreign exchange risk on certain intercompany assets and (ii) the net monetary assets denominated in currencies other than the local currencies. These income sources were also partially offset by approximately $300,000 of realized losses on sales of marketable securities and approximately $100,000 of interest expense incurred on equipment leases, including the amortization of the fair value of warrants issued to lenders in prior years.

Provision for Income Taxes

Our provision for income taxes decreased to $218.3 million, or an effective tax rate of 26.9%, in the three months ended March 31, 2006, from $267.6 million, or an effective tax rate of 41.8%, in the three months ended December 31, 2005. The effective tax rate in the fourth quarter of 2005 was much higher than the effective tax rates for the other quarters of 2005 as well as for all of 2005 (31.6%) primarily because, relative to our expectations during the third quarter of 2005, proportionately more of our earnings in the fourth quarter of 2005 and for all of 2005 were recognized in the U.S. than by our subsidiaries outside the U.S., and such earnings were taxed at a higher statutory tax rate than earnings generated outside the U.S. The effective tax rate of 26.9% in the first quarter of 2006 approximately reflects our expected effective tax rate of approximately 30% for 2006. The effective tax rate of 26.9% in the first quarter of 2006 is lower than the effective tax rate for 2005 of 31.6% primarily because we expect more of our earnings in 2006 to be recognized by our subsidiaries outside the U.S. and such earnings are taxed at a lower statutory tax rate than in the U.S.

Our provision for income taxes increased to $218.3 million, or an effective tax rate of 26.9% in the three months ended March, 2006, from $87.3 million, or an effective tax rate of 19.1% in the three months ended March 31, 2005, primarily due to increases in federal and state income taxes, driven by higher taxable income period over period. Also, in the three months ended March 31, 2005, we realized a $48.5 million reduction to our tax provision as a result of disqualifying dispositions related to our incentive stock options. Our provision for income taxes in the three months ended March 31, 2006 was not materially affected by disqualifying dispositions related to incentive stock options.

As noted above, our effective tax rate in 2006 is expected to be approximately 30%; however it could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than

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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:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2006
	(in thousands)	
Net cash provided by operating activities	$ 529,622	$ 824,804
Net cash used in investing activities	(472,328)	(1,888,617)
Net cash provided by financing activities	3,505	119,896

As a result of the completion of our initial public offering in August 2004 and our follow-on stock offering in September 2005, we raised $1,161.1 million and $4,287.2 million of net proceeds. At March 31, 2006, we had $8,429.0 million of cash, cash equivalents and marketable securities. Cash equivalents and marketable securities are comprised of highly liquid debt instruments of municipalities in the U.S. and the U.S. government and its agencies, as well as an equity investment. Note 2 of Notes to Condensed Consolidated Financial Statements included as part of this report describes further the composition of our cash, cash equivalents and marketable securities.

Our principal sources of liquidity are our cash, cash equivalents and marketable securities, as well as the cash flow that we generate from our operations. At March 31, 2006 and December 31, 2005, we had unused letters of credit for approximately $14.6 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, and the effect of changes in working capital and other activities. Cash provided by operating activities in the three months ended March 31, 2006 was $824.8 million and consisted of net income of $592.3 million, adjustments for non-cash items of $229.8 million and cash provided by working capital and other activities of $2.7 million. Adjustments for non-cash items primarily consisted of $95.9 million of depreciation and amortization expense on property and equipment and $114.7 million of stock-based compensation. In addition, working capital activities primarily consisted of an increase of $155.2 million in accounts receivable due to the growth in fees billed to our advertisers, offset by a net increase in income taxes payable and deferred income taxes of $139.2 million and an increase of $51.2 million in accrued revenue share due to the growth in our AdSense programs and the timing of payments made to our Google Network members.

SFAS 123(R) requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a cash flow from financing activities, rather than as a cash flow from operating activities, as was prescribed under accounting rules applicable through December 31, 2005. In compliance with the modified prospective transition method under SFAS 123R, the excess tax benefits from stock-based award activity generated in the three months ended March 31, 2006 and in the three months ended March 31, 2005 are reported as a cash flow from financing activities and a cash flow from operating activities, respectively.

Cash provided by operating activities in the three months ended March 31, 2005 was $529.6 million and consisted of net income of $369.2 million, adjustments for non-cash items of $182.4 million and offset by $22.0 million used in working capital and other activities. Adjustments for non-cash items primarily consisted of $77.4 million of excess tax benefits from stock-based award activity, $46.5 million of depreciation and amortization expense on property and equipment and $48.9 million of stock-based compensation. In addition, working capital activities primarily consisted of an increase of $60.1 million in accounts receivable due to the growth in fees billed to our advertisers. This was partially offset by an increase of $42.7 million in accounts payable due to the increase in purchases of property and equipment.

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 flow provided by our operating activities. In addition, now that we have become a public company, our cash-based compensation per employee has increased and will likely continue to increase (primarily in the form of variable bonus awards and other incentive arrangements) in order to retain and attract employees.

Cash used in investing activities in the three months ended March 31, 2006 of $1,888.6 million was attributable to net purchases of marketable securities of $1,355.7 million, capital expenditures of $344.9 million and cash consideration used in acquisitions and other investments of $188.0 million, a majority of which was related to the acquisition of dMarc Broadcasting, Inc. Cash used in investing activities in the three months ended March 31, 2005 of $472.3 million was attributable to net purchases of marketable securities of $324.9 million, capital expenditures of $142.4 million and cash consideration used in acquisitions and other investments of $5.0 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. We expect the annual growth rate of our investments in property and equipment in 2006, including information and technology infrastructure and land and buildings, to be substantially greater than our annual revenue growth rate in 2006.

In addition, we expect to spend a significant amount of cash on acquisitions and other investments from time to time. Through these acquisitions and investments, we acquire engineering teams, technologies and other assets. In April 2006, we completed our equity investment in America Online, Inc. for $1.0 billion in cash. Also in connection with the acquisition of dMarc Broadcasting, Inc., we are obligated to make additional cash payments of up to $1,136.0 million if certain performance targets are met through December 31, 2008. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower.

Also, as part of our philanthropic program, we expect to make equity and other investments in for-profit enterprises that aim to alleviate poverty, improve the environment or achieve other socially or economically progressive objectives. We expect these investments to be made primarily in cash and to be approximately $175 million over the three years ended December 31, 2008.

Cash provided by financing activities in the three months ended March 31, 2006 of $119.9 million was due primarily to (i) excess tax benefits of $77.3 million from stock-based award activity during the period, which also represents a reduction to our income taxes payable that related to the exercise, sale or vesting of these stock-based awards, (ii) net proceeds from the issuance of common stock pursuant to stock option exercises of $42.6 million. Cash provided by financing activities in the three months ended March 31, 2005 of $3.5 million was due primarily to net proceeds from the issuance of common stock pursuant to stock option exercises of $4.1 million, net of purchases, offset by repayment of equipment loan and lease obligations of $600,000.

In April 2006, we issued 5,300,000 shares of our Class A common stock in a public stock offering for net proceeds of approximately $2.064 billion.

Contractual Obligations

We are obligated under certain agreements to make guaranteed minimum revenue share payments to Google Network members and certain partners based on their achieving defined performance terms, such as number of search queries or advertisements displayed. At March 31, 2006, our aggregate outstanding non-cancelable minimum guarantee commitments totaled $201.2 million through 2008 compared to $234.3 million at December 31, 2005.

Critical Accounting Policies and Estimates

We prepare our condensed 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 many 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 both the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes and interest will be due. These reserves are established when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and may not be sustained on review by tax authorities. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit. 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 26.9% and 31.6% for the quarter ended March 31, 2006 and for the year ended December 31, 2005. 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 Statement of Financial Accounting Standards (SFAS) No. 123R, *Shared-Based Payment*. Under the provisions of SFAS No. 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.

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

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. Effective January 2004, our board of directors approved a foreign exchange hedging program designed to minimize the future potential impact due to changes in foreign currency exchange rates. The program allows for the hedging of transaction exposures. The types of derivatives that can be used under the policy are forward contracts, options and foreign exchange swaps. The vehicle we use is forward contracts. We also generate revenue in certain countries in Asia where there are limited forward currency exchange markets, thus making these exposures difficult to hedge. We have entered into forward foreign exchange contracts to offset the foreign exchange risk on certain intercompany assets, as well as cash denominated in currencies other than the local currency of the subsidiary. The notional principal of forward exchange contracts to purchase U.S. dollars with foreign currencies was $629.5 million at March 31, 2006. There were no other forward exchange contracts outstanding at March 31, 2006.

Our exposure to foreign currency translation gains and losses arises from the translation of net assets of our subsidiaries to U.S. dollars during consolidation. We recognized translation losses of $3.2 million in the three months ended March 31, 2006 primarily a result of generally weakening foreign currencies against the U.S. dollar.

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 taxes of approximately $30.3 million and $2.2 million at March 31, 2006 and December 31, 2005. The adverse impact at March 31, 2006 is after consideration of the offsetting effect of approximately $63.5 million and $63.3 million from forward exchange contracts in place for the month of March 2006 and December 2005. 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 highly liquid debt securities of corporations and municipalities. By policy, we limit the amount of credit exposure to any one issuer.

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 $63.9 million and $60.4 million at March 31, 2006 and December 31, 2005.

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

There were no changes in our internal control over financial reporting that occurred during the period covered by this 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

Certain 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 recently have litigated similar issues in other cases in the U.S., France, Germany, Italy, Israel and Austria. Adverse results in these lawsuits may result in, or even compel, a change in this practice which could result in a loss of revenue for us, which could harm our business.

Certain entities have also filed copyright claims against us, alleging that features of certain of our products, including Google Web Search, Google News, Google Image Search, and Google Book Search, infringe their rights. Adverse results in these lawsuits may include awards of damages and may also result in, or even compel, a change in our business practices, which could result in a loss of revenue for us or otherwise harm our business.

From time to time, we may also become 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, 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 flow. Regardless of the outcome, litigation can have an adverse impact on us because of defense costs, diversion of management resources and other factors.

ITEM 1A. RISK FACTORS

A restated description of the risk factors associated with our business is set forth below. This description includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

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 announced plans to develop features that make web search a more integrated part of its Windows operating system or other desktop software products. We expect that Microsoft will increasingly use its financial and engineering resources to compete with us. Both Microsoft and Yahoo have more employees than we do (in Microsoft s case, approximately 9 times as many). Microsoft also has significantly more cash resources than we do. Both of these companies also 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 compared to ours or leverage their platforms or products to make their web search services easier to access than ours, we could experience a significant decline in user traffic. Any such decline in traffic 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 that may also bundle their services with Internet access.

In addition to Microsoft and Yahoo, we face competition from other web search providers, including companies that are not yet known to us. 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 compete with destination web sites that seek to increase their search-related traffic. These destination web sites may 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 websites or the websites 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.

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

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

We expect our 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 to the extent the proportion of our revenues generated from our Google Network members increases. 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 could decrease in the future if our Google Network members demand a greater portion of the advertising fees, which could be the result of increased competition for these 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 of which are outside of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual expenses as a percentage of our revenues may be significantly different from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in Item 1A, Risk Factors, 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.
- Payments made in connection with the resolution of litigation matters.
- General economic conditions and those economic conditions specific to the Internet and Internet advertising.
- Our ability to keep our web sites operational at a reasonable cost and without service interruptions.
- Our ability to forecast revenue from agreements under which we guarantee minimum payments.
- Geopolitical events such as war, threat of war or terrorist actions.

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 masked 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 may cause 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 people use for a high quality Internet experience. Our competitors are constantly developing innovations in web search, online advertising and providing information to people. 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 high-quality products and services that people can easily and effectively use. If we are unable to ensure that our users and customers have a high quality experience with our products and services, then they may become dissatisfied and move to competitors products and services. In addition, if we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, we may lose users, advertisers and Google Network members. 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 opportunity 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 perceived to be, substantially similar or better than those generated by our search services. This may force us to compete in different ways with our competitors and to 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 approximately 99% of our revenues in 2005 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 affect our revenues and business.

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. The revenues generated from the fees advertisers pay us when users click on ads that we have delivered to our Google Network members web sites or as ads are displayed represented 44% of our revenues in 2005 and 41% of our revenues in the three months ended March 31, 2006. We consider this network to be critical to the future growth of our revenues. However, some of the participants in this network may compete with us in one or more areas. Therefore, 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. In addition, advertising and other fees generated from one Google Network member, AOL, primarily through our AdSense program, accounted for approximately 9% and 8% of our revenues in 2005 and in the three months ended March 31, 2006, respectively. We recently entered into an arrangement with AOL and Time Warner under which we acquired a five percent indirect equity interest in AOL in exchange for $1 billion in cash and expanded our strategic alliance with AOL. If our relationship with AOL 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 and we may have to incur significant expenditures to address the additional operational and control requirements of this growth.

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 allocation of valuable management resources. If the improvements are not implemented successfully, our ability to manage our growth will be impaired and we may have to make significant additional expenditures to address these issues, which could harm our financial position. The required improvements include:

- Enhancing our information and communication systems to ensure that our offices around the world are well coordinated and that we can effectively communicate with our growing base of users, advertisers and Google Network members.

Enhancing systems of internal controls to ensure timely and accurate reporting of all of our operations.

Ensuring enhancements to our systems of internal controls are scalable to our anticipated growth in headcount and operations.

Standardizing systems of internal controls and ensuring they are consistently applied at each of our operations around the world.

Improving our information technology infrastructure to maintain the effectiveness of our search and ad systems.

We are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Although we concluded that our internal controls over financial reporting were effective as of December 31, 2005, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, there can be no assurances that we will reach the same conclusion at the end of future years. If our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective. If we are unable to assert that our internal control over financial reporting is effective, or if our auditors are unable to attest that our management s report is fairly stated or they are unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price.

We are migrating critical financial functions to a third-party provider. If this transition is not successful, our business and operations could be disrupted and our operating results could be harmed.

We have entered into an arrangement to transfer our worldwide billing, collection and credit evaluation functions to a third-party service provider, Bertelsmann AG, and are currently in the process of implementing this arrangement. However, we cannot be sure that the arrangement will be completed and implemented successfully or at all. The third-party provider will also help track, on an automated basis, a majority of our growing number of AdSense revenue share agreements. These functions are critical to our operations and involve sensitive interactions between us and our advertisers and members of our Google Network. If we do not successfully implement this project, our business, reputation and operating results could be harmed. We have no experience managing and implementing this type of large-scale, cross-functional, international infrastructure project. We also may not be able to integrate all of our systems and processes with those of the third-party service provider on a timely basis, or at all. Even if this integration is completed on time, the service provider may not perform to agreed-upon service levels. Failure of the service provider to perform satisfactorily could disrupt our operations, result in customer dissatisfaction and adversely affect operating results. We will implement monitoring controls over the systems and processes of the third-party vendor. However, there may be more risk than if we maintained and operated the controls ourselves. If we need to find an alternative source for performing these functions, we may have to expend significant resources in doing so, and we cannot guarantee this would be accomplished in a timely manner or without significant additional disruption to our business.

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, our ability to expand our base of users, advertisers and Google Network members will be impaired and our business and operating results will be harmed.

We believe that the brand identity that we have developed has significantly contributed to the success of our business. We also believe that maintaining and enhancing the Google brand is critical to expanding our base of users, advertisers and Google Network members. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not be successful. If we fail to promote and maintain 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. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. Maintaining and enhancing our brand will depend largely on our ability to be a technology leader and to continue to provide high quality products and services, which we may not do successfully.

People have in the past expressed, and may in the future express, objections to aspects of our products. For example, people have raised privacy concerns relating to the ability of our Gmail email service to match relevant ads to the content of email messages. In addition, some individuals and organizations have raised objections to and sued us in connection with our scanning of copyrighted materials from library collections for use in our Google Book Search product. Aspects of our future products may raise similar public concerns. Publicity regarding such concerns could harm our brand. In addition, members of the Google Network and other third parties may take actions that could impair the value of our brand. We are aware that third parties, from time to time, use Google and similar variations in their domain names without our approval, and our brand may be harmed if users and advertisers associate these domains with us.

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. These types of activities could assist our competitors or diminish the value of our search results. 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.

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. In addition, our initial public offering has created disparities in wealth among Google employees, which may adversely impact relations among employees and our corporate culture in general.

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 all of our other intellectual property rights are important assets for us. There are events that are outside of our control that 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. Finally, third parties increasingly have and will continue to allege that Google products and services infringe their patent rights.

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 third 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 face increasing competition and become increasingly high profile, the possibility of intellectual property rights claims against us grows. Our technologies may not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle and could divert resources and attention. In addition, many of our agreements with members of our Google Network 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. An adverse determination also could prevent us from offering our products and services to others and may require that we procure substitute products or services for these members.

With respect to any intellectual property rights claim, we may have to pay damages or discontinue the practices found to be in violation of a third party s rights. We may have to seek a license to continue such practices, which may not be available on reasonable terms and may significantly increase our operating expenses. A license to continue such practices may not be available to us at all. As a result, we may also be required to develop alternative non-infringing technology or practices or discontinue the practices. The development of alternative non-infringing technology or practices could require significant effort and expense. If we cannot obtain a license to continue such practices or develop alternative technology or practices for the infringing aspects of our business, we may be forced to limit our product and service offerings and may be unable to compete effectively. Any of these results could harm our brand and operating results.

From time to time, we receive notice letters from patent holders alleging that certain of our products and services infringe their patent rights. Some of these have resulted in litigation against us. Companies have also 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., France, Germany, Israel, Italy and Austria.

In order to provide users with more useful ads, in 2004 we revised our trademark policy in the U.S. and Canada. Under our revised policy, we no longer disable ads due to selection by our advertisers of trademarks as keyword triggers for the ads. We are currently defending this policy in trademark infringement lawsuits in the United States. Defending these lawsuits is consuming time and resources. Adverse results in these lawsuits may result in, or even compel, a change in this practice which could result in a loss of revenue for us, which could harm our business.

Certain entities have also filed copyright claims against us, alleging that features of certain of our products, including Google Web Search, Google News, Google Image Search, and Google Book Search, infringe their rights. Adverse results in these lawsuits may include awards of damages and may also result in, or even compel, a change in our business practices, which could result in a loss of revenue for us or otherwise harm our business. In addition, generally speaking, any time that we have a product or service that links to or hosts material in which others allege to 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 potential harm from such lawsuits is substantial.

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

Although we only opened our first office outside the U.S. in 2001, international revenues accounted for approximately 42% of our total revenues in the first quarter of 2006 and more than half of our user traffic came from outside the U.S. during this period. We have only 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 in 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 foreign and U.S. laws and regulations that are applicable to our international operations is complex and may increase our cost of doing business in international jurisdictions and our international operations could expose us to fines and penalties if we fail to comply with these regulations. These laws and regulations include import and export requirements, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures designed to ensure compliance with these laws, there can be no assurance that our employees, contractors and agents will not take actions in violation of our policies. Any such violations could subject us to civil or criminal penalties, including substantial fines or 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 business and our operating results.

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 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 third-party 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.

If we fail to detect click fraud or other invalid clicks, we could face potential 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 potentially leading to a loss of advertisers and revenues.

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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.

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 may be 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 affect on our business. Laws related to data protection continue to evolve. It is possible that certain jurisdictions may enact laws or regulations that impact our ability to offer our products and services in those jurisdictions, which could harm our business.

Our business is subject to a variety of U.S. and foreign laws that could subject us to claims or other remedies based on the nature and content of the information searched or displayed by our products and services, and could limit our ability to provide information regarding regulated industries and products.

The laws relating to the liability of providers of online services for activities of their users 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, invasion of privacy and other data protection claims, tort, unlawful activity, copyright or trademark infringement, or other theories based on the nature and content of the materials searched and the ads posted or the content generated by our users. From time to time we have received notices from individuals who do not want their names or web sites to appear in our web search results when certain keywords are searched. It is also possible that we could be held liable for misinformation provided over the web when that information appears in our web search results. If one of these complaints results in liability to us, it could be potentially costly, encourage similar lawsuits, distract management and harm our reputation and possibly our business. In addition, increased attention focused on these issues and legislative proposals could harm our reputation or otherwise affect the growth of our business.

The application to us of existing laws regulating or requiring licenses for certain businesses of our advertisers, including, for example, distribution of pharmaceuticals, adult content, financial services, alcohol or firearms, can be unclear. Existing or new legislation could expose us to substantial liability, restrict our ability to deliver services to our users, limit our ability to grow and cause us to incur significant expenses in order to comply with such laws and regulations.

Several other federal laws could have an impact on our business. Compliance with these laws and regulations is complex and may impose significant additional costs on us. For example, the Digital Millennium Copyright Act has provisions that limit, but do not 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 Children s 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 addition, the Protection of Children from Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child

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pornography laws under certain circumstances. Any failure on our part to comply with these regulations may subject us to additional liabilities.

We also face risks associated with international data protection. 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 in turn could have a material effect on our business.

If we were to lose the services of Eric, Larry, Sergey or 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.

The initial option grants to many of our senior management and key employees are fully vested. Therefore, these employees may not have sufficient financial incentive to stay with us, we may have to incur costs to replace key employees who leave, and our ability to execute our business model could be impaired if we cannot replace departing employees in a timely manner.

Many of our senior management personnel and other key employees have become, or will soon become, substantially vested in their initial stock option grants. While we often grant additional stock options to management personnel and other key employees after their hire dates to provide additional incentives to remain employed by us, these follow-on grants are typically much smaller than the initial grants. Employees may be more likely to leave us after their initial option grant fully vests, especially if the shares underlying the options have significantly appreciated in value relative to the option exercise price. We have not given any additional stock grants to Eric, Larry or Sergey, and Eric, Larry and Sergey are fully vested in their existing grants. If any members of our senior management team leave the company, our ability to successfully operate our business could be impaired. We also may have to incur significant costs in identifying, hiring, training and retaining replacements for departing employees.

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 is largely dependent 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 we are aware that 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 option grants may not be as effective as in the past and our current and future compensation arrangements, which include cash bonuses, may not be successful in attracting new employees and retaining and motivating our existing employees. In addition, we have recently introduced new stock award programs, and under these new programs new employees will be issued a portion of their stock awards in the form of restricted stock units. These restricted stock units will vest based on individual performance, as well as the exercise price of their stock options as compared to that of other employees who started at about the same time. These new stock awards programs may not provide adequate incentives to attract, retain and motivate outstanding performers. If we do not succeed in attracting excellent personnel or retaining or motivating existing personnel, we may be unable to grow effectively.

Our CEO and our two founders run the business and affairs of the company collectively, which may harm their ability to manage effectively.

Eric, our CEO, and Larry and Sergey, our founders and presidents, currently provide leadership to the company as a team. Our bylaws provide that our CEO and our presidents will together have general supervision, direction and control of the company, subject to the control of our board of directors. As a result, Eric, Larry and Sergey tend to operate the company collectively and to consult extensively with each other before significant decisions are made. This may slow the decision-making process, and a disagreement among these individuals could prevent key strategic decisions from being made in a timely manner. In the event our CEO and our two founders are unable to continue to work well together in providing cohesive leadership, our business could be harmed.

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 new cost-per-impression advertising model which we launched in the second quarter of 2005. As a result, we have very little operating history for you to evaluate 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. You must consider our business and prospects in light of the risks and difficulties we will encounter as an early-stage company 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.

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. In 2005, we spent substantial amounts and we expect this spending to continue as we purchase or lease data centers and equipment and upgrade 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 implement this expansion successfully, or if we experience inefficiencies and operational failures during the implementation, 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. The costs associated with these adjustments to our architecture could harm our operating results. 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 or other third parties for key aspects of the process of providing products and services to our users, and any failure or interruption in the services and products provided by these third parties could harm our ability to operate our business and damage our reputation.

We rely on third-party vendors, including data center and bandwidth providers. Any disruption in the network access or colocation services provided by these third-party providers or any failure of these third-party 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, the nature and extent of which we cannot predict. We exercise little control over these third-party vendors, which increases our vulnerability to

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problems with the services they provide. We license technology and related databases from third parties to facilitate aspects of our data center and connectivity operations including, among others, 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 experienced in connection with these third-party technologies and information services could negatively impact our relationship with users and adversely affect our brand and our business and could expose us to liabilities to third parties.

Our systems are also heavily reliant on the availability of electricity, which also comes from third-party providers. 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 through a major power outage and their fuel supply could also be inadequate during a major power outage. This could result in a disruption of our business.

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

Our provision 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. Interruptions in our service could reduce our revenues and profits, and our brand could be damaged if people believe our system is unreliable. 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, and similar events. 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.

We have experienced system failures in the past and may in the future. For example, in November 2003 we failed to provide web search results for approximately 20% of our traffic for a period of about 30 minutes. Any unscheduled interruption in our service puts a burden on our entire organization and would result in an immediate loss of revenue. If we experience frequent or persistent system failures on our web sites, our reputation and brand could be permanently harmed. The steps we have taken to increase the reliability and redundancy of our systems are expensive, reduce our operating margin and may not be successful in reducing the frequency or duration of unscheduled downtime.

More individuals are using non-PC devices to access the Internet, and versions of our web search technology developed for these devices may not be widely adopted by users of these devices.

The number of people who access the Internet through devices other than personal computers, including mobile telephones, hand-held calendaring and email assistants, and 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 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.

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

We have entered into, and may continue to enter into, minimum fee guarantee agreements with a small number of Google Network members. In these agreements, we promise to make minimum payments to the Google Network member for a pre-negotiated period of time, typically from three months to a year or more. It is difficult to forecast with certainty the fees that we will earn under our agreements, and sometimes the fees we earn fall short of the minimum guarantee payment amounts. Also, increasing competition for arrangements with web sites that are potential Google Network members could result in our entering into more of these minimum fee guarantee agreements under which guaranteed payments exceed the fees we receive from advertisers whose ads we place on those Google Network member sites. In each period to date, the aggregate fees we have earned under these agreements have exceeded the aggregate amounts we have been obligated to pay these Google Network members. However, individual agreements have resulted in guaranteed minimum and other payments to certain Google Network members in excess of the related fees we receive from advertisers. We expect that some individual agreements will continue to result in guaranteed minimum and other payments to certain Google Network members in excess of the related fees we receive from advertisers, which will adversely affect our profitability. However, we expect that the aggregate fees we will earn under agreements with guaranteed minimum and other payments will exceed the aggregate amounts we will be obligated to pay these Google Network members.

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 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 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 (like any company s determination of its tax liability) is subject to review by applicable tax authorities. Any adverse outcome of such a review could have an adverse 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 in the ordinary course of our business, 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.

We rely on insurance to mitigate some risks and, to the extent the cost of insurance increases or we are unable or choose not to maintain sufficient insurance to mitigate the risks facing our business, our operating results may be diminished.

We contract for insurance to cover certain potential risks and liabilities. In the current environment, insurance companies are increasingly specific about what they will and will not insure. It is possible that we may not be able to get enough insurance to meet our needs, may have to pay very high prices for the coverage we do get or may not be able to acquire any insurance for certain types of business risk. In addition, we have in the past and may in the future choose not to obtain insurance for certain risks facing our business. This could leave us exposed to potential claims. If we were found liable for a significant claim in the future, our operating results could be negatively impacted. Also, to the extent the cost of maintaining insurance increases, our operating results will be negatively affected.

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. We have evaluated, and expect to continue to evaluate, a wide array of potential strategic transactions. From time to time, we may engage in discussions regarding potential acquisitions. Any of these transactions could be material to our financial condition and results of operations. In addition, the process of integrating an acquired company, business or technology may create unforeseen operating difficulties and expenditures and is risky. The areas where we may face risks include:

- The need to implement or remediate controls, procedures and policies appropriate for a larger public company at companies that prior to the acquisition lacked these controls, procedures and policies.
- Diversion of management time and focus from operating our business to acquisition integration challenges.
- Cultural challenges associated with integrating employees from the acquired company into our organization.
- Retaining employees from the businesses we acquire.
- The need to integrate each company s accounting, management information, human resource and other administrative systems to permit effective management.

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.

Also, the anticipated benefit of many of our acquisitions may not materialize. Future acquisitions or dispositions could result in potentially 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.

We occasionally become subject to commercial disputes that could harm our business by distracting our management from the operation of our business, by increasing our expenses and, if we do not prevail, by subjecting us to potential monetary damages and other remedies.

From time to time we are engaged in disputes regarding our commercial transactions. These disputes could result in monetary damages or other remedies that could adversely impact our financial position or operations. Even if we prevail in these disputes, they may distract our management from operating our business and the cost of defending these disputes would reduce our operating results.

We have to keep up with rapid technological change to remain competitive in our rapidly evolving industry.

Our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our services to evolving industry standards and to improve the performance and reliability of our services. Our failure to adapt to such changes would harm our business. New technologies and advertising media could adversely affect us. In addition, the widespread adoption of new Internet, networking or telecommunications

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technologies or other technological changes could require substantial expenditures to modify or adapt our services or infrastructure.

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 it 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.

Changes in accounting rules for stock-based compensation may adversely affect our operating results, our stock price and our competitiveness in the employee marketplace.

We have a history of using employee stock options and other stock-based compensation to hire, motivate and retain our employees. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment, which required us, starting January 1, 2006, to measure compensation costs for all stock-based compensation (including stock options) at fair value and to recognize these costs as expenses in our statements of income. The recognition of these expenses in our statements of income has had and will have a negative effect on our earnings per share, which could negatively impact our stock price. In addition, if we reduce or alter our use of stock-based compensation to minimize the recognition of these expenses, our ability to recruit, motivate and retain employees may be impaired, which could put us at a competitive disadvantage in the employee marketplace.

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.
- Disruption to our operations or those of our Google Network members or our data centers.
- The emergence of new sales channels in which we are unable to compete effectively.
- Our ability to develop and market new and enhanced products on a timely basis.
- Commencement of, or our involvement in, litigation.

Any major change in our board or management.

Changes in governmental regulations or in the status of our regulatory approvals.

Recommendations by securities analysts or changes in earnings estimates.

Announcements about our earnings that are not in line with analyst expectations, the likelihood 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.

General economic conditions and slow or negative growth of related markets.

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 your ability to influence corporate matters.

Our Class B common stock has ten votes per share and our Class A common stock has one vote per share. As of March 2006, our founders, executive officers and directors (and their affiliates) together owned shares of Class A common stock and Class B common stock representing approximately 78% of the voting power of our outstanding capital stock. In particular, as of December 31, 2005, our two founders and our CEO, Larry, Sergey and Eric, controlled approximately 85% of our outstanding Class B common stock, representing approximately 69% 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. In addition, because of this dual class structure, our founders, directors, executives and employees will continue to be able to control all matters submitted to our stockholders for approval even if they come to own less than 50% of the outstanding shares of our common stock. This concentrated control limits your 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.

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

Purchases of Equity Securities by Google

Pursuant to the terms of our 1998 Stock Plan, 2000 Stock Plan, 2003 Stock Plan, 2003 Stock Plan (No. 2), 2003 Stock Plan (No. 3), 2004 Stock Plan and equity incentive plans assumed through acquisitions (collectively referred to as our Stock Plans), options may typically be exercised prior to vesting. We have the right to repurchase unvested shares from service providers upon their termination, and it is generally our policy to do so. The following table provides information with respect to purchases made by us of shares of our common stock during the three month period ended March 31, 2006:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 31	4,603	$ 0.63		
February 1 28		$		
March 1 31	2,169	$ 4.95		
Total	6,772	$ 2.01		

(1) All shares were originally purchased from us by employees pursuant to exercises of unvested stock options. During the months listed above, we routinely repurchased the shares from our service providers upon their termination of employment pursuant to our right to repurchase unvested shares at the original exercise price under the terms of our Stock Plans and the related stock option agreements.

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ITEM 6. EXHIBITS

Exhibit Number	Description	Location of Exhibit Incorporated by reference herein	
		Form	**Date**
1.1	Underwriting Agreement dated March 31, 2006 between Google Inc. and Goldman, Sachs & Co.	Current Report on Form 8-K	March 29, 2006
10.23*	Agreement and Plan of Merger, dated as of January 16, 2006, by and among the Registrant, Enumclaw, Inc., dMarc Broadcasting, Inc. and certain other parties thereto		
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.
Confidential treatment has been requested for certain portions of this exhibit.
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 10, 2006	By:	/s/ ERIC SCHMIDT **Eric Schmidt**
		Chairman of the Executive Committee
		and Chief Executive Officer

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