Google Inc.
Form 424B4
August 19, 2004
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Registration No. 333-114984

Prospectus

August 18, 2004

19,605,052 Shares

Class A Common Stock

Google Inc. is offering 14,142,135 shares of Class A common stock and the selling stockholders are offering 5,462,917 shares of Class A common stock. We will not receive any proceeds from the sale of shares by the selling stockholders. This is our initial public offering and no public market currently exists for our shares. The initial public offering price is $85.00 per share.

Following this offering, we will have two classes of authorized common stock, Class A common stock and Class B common stock. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to ten votes per share and is convertible at any time into one share of Class A common stock.

Our Class A common stock will be quoted on The Nasdaq National Market under the symbol GOOG.

Investing in our Class A common stock involves risks. See Risk Factors beginning on page 4.

Price $85.00 A Share

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Google	Proceeds to Selling Stockholders
Per Share	$ 85.00	$ 2.3839	$ 82.6161	$ 82.6161
Total	$ 1,666,429,420	$ 46,736,483	$ 1,168,368,039	$ 451,324,897

The selling stockholders have granted the underwriters the right to purchase up to an additional 2,940,757 shares to cover over-allotments.

The price to the public and allocation of shares were determined by an auction process. The minimum size for a bid in the auction was five shares of our Class A common stock. The method for submitting bids and a more detailed description of this auction process are included in Auction Process beginning on page 34. As part of this auction process, we attempted to assess the market demand for our Class A common stock and to set the size and price to the public of this offering to meet that demand. As a result, buyers should not expect to be able to sell their shares for a profit shortly after our Class A common stock begins trading. We determined the method for allocating shares to bidders who submitted successful bids following the closing of the auction.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

It is expected that the shares will be delivered to purchasers on or about August 24, 2004.

Morgan Stanley **Credit Suisse First Boston**

Goldman, Sachs & Co. **Citigroup**

Lehman Brothers **Allen & Company LLC**

JPMorgan **UBS Investment Bank**

WR Hambrecht+Co **Thomas Weisel Partners LLC**

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our Class A common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is complete and accurate only as of the date of the front cover regardless of the time of delivery of this prospectus or of any sale of shares. Except where the context requires otherwise, in this prospectus, the Company, Google, we, us and our refer to Google Inc., a Delaware corporation, and, where appropriate, its subsidiaries.

We have not undertaken any efforts to qualify this offering for offers to individual investors in any jurisdiction outside the U.S.; therefore, individual investors located outside the U.S. should not expect to be eligible to participate in this offering.

Until September 12, 2004, all dealers that effect transactions in our shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. You should read this summary together with the more detailed information, including our financial statements and the related notes, elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in Risk Factors.

Google Inc.

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. We maintain the world s largest online index of web sites and other content, and we make this information freely available to anyone with an Internet connection. Our automated search technology helps people obtain nearly instant access to relevant information from our vast online index.

We generate revenue by delivering relevant, cost-effective online advertising. Businesses use our AdWords program to promote their products and services with targeted advertising. In addition, the thousands of third-party web sites that comprise our Google Network use our Google AdSense program to deliver relevant ads that generate revenue and enhance the user experience. Advertisers in our AdWords program pay us a fee each time a user clicks on one of their ads displayed either on our web sites or on the web sites of Google Network members that participate in our AdSense program. When a user clicks on an ad displayed on a web site of a Google Network member, we retain only a small portion of the advertiser fee, while most of the fee is paid to the Google Network member.

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

- We will do our best to provide the most relevant and useful search results possible, independent of financial incentives. Our search results will be objective and we will not accept payment for inclusion or ranking in them.
- We will do our best to provide the most relevant and useful advertising. Whenever someone pays for something, we will make it clear to our users. Advertisements should not be an annoying interruption.
- We will never stop working to improve our user experience, our search technology and other important areas of information organization.

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

Corporate Information

We were incorporated in California in September 1998. In August 2003, we reincorporated in Delaware. Our principal executive offices are located at 1600 Amphitheatre Parkway, Mountain View, California 94043, and our telephone number is (650) 623-4000. We maintain a number of web sites including www.google.com. The information on our web sites is not part of this prospectus.

Google® is a registered trademark in the U.S. and several other countries. Our unregistered trademarks include: AdSense, AdWords, Blogger, Froogle, Gmail, I m Feeling Lucky and PageRank. All other trademarks, trade names and service marks appearing in this prospectus are the property of their respective holders.

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The Offering

Class A common stock offered:	
By Google	14,142,135 Shares
By the selling stockholders	5,462,917 Shares
Total	19,605,052 Shares
Class A common stock to be outstanding after this offering	33,603,386 Shares
Class B common stock to be outstanding after this offering	237,616,257 Shares
Total common stock to be outstanding after this offering	271,219,643 Shares
Use of proceeds	We intend to use the net proceeds from this offering for general corporate purposes, including working capital, and possible acquisitions of complementary businesses, technologies or other assets. We will not receive any of the proceeds from the sale of shares by the selling stockholders. See Use of Proceeds for additional information.
Nasdaq symbol	GOOG

The number of shares of Class A and Class B common stock that will be outstanding after this offering is based on the number of shares outstanding at June 30, 2004 and includes (i) 2,700,000 shares of Class A common stock issued to Yahoo! Inc. in connection with a settlement arrangement, (ii) 62,187 shares of Class A common stock that will be sold in the offering by one of our selling stockholders following exercise of a warrant to purchase Class B common stock and (iii) the conversion of the shares of Class B common stock into Class A common stock in connection with this sale, and excludes:

1,933,953 shares of Class B common stock issuable upon the exercise of warrants outstanding at June 30, 2004, at a weighted average exercise price of $0.62 per share.

6,276,573 shares of Class A common stock issuable upon the exercise of options outstanding at June 30, 2004, at a weighted average exercise price of $9.42 per share.

10,456,084 shares of Class B common stock issuable upon the exercise of options outstanding at June 30, 2004, at a weighted average exercise price of $2.68 per share.

3,891,192 shares of common stock available for future issuance under our stock option plans at June 30, 2004.

Unless otherwise indicated, all information in this prospectus assumes that the underwriters do not exercise the over-allotment option to purchase 2,940,757 additional shares of Class A common stock in this offering and that all shares of our preferred stock are converted into Class B common stock prior to this offering.

The Auction Process

The auction process being used for our initial public offering differs from methods that have been traditionally used in most other underwritten initial public offerings in the U.S. In particular, the initial public offering price and the allocation of shares were determined by an auction process conducted by us and our underwriters. You should be aware that we have selected an underwriting group that serves a broad range of the investing public, and each member of the underwriting group makes different suitability determinations with respect to investors participating in the auction process. We encourage you to discuss any questions you have regarding underwriter requirements with the underwriter through which you bid because these requirements could affect your ability to submit a bid. For more information about the auction process, see Auction Process.

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Summary Consolidated Financial Data

The following table summarizes financial data regarding our business and should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	Year Ended December 31,					Six Months Ended June 30,	
	1999	2000	2001	2002	2003	2003	2004
	(in thousands, except per share data)					(unaudited)	
Consolidated Statements of Operations Data:							
Revenues	$ 220	$ 19,108	$ 86,426	$ 439,508	$ 1,465,934	$ 559,817	$ 1,351,835
Costs and expenses:							
Cost of revenues	908	6,081	14,228	131,510	625,854	204,596	641,775
Research and development	2,930	10,516	16,500	31,748	91,228	29,997	80,781
Sales and marketing	1,677	10,385	20,076	43,849	120,328	42,589	104,681
General and administrative	1,221	4,357	12,275	24,300	56,699	22,562	47,083
Stock-based compensation		2,506	12,383	21,635	229,361	70,583	151,234
Total costs and expenses	6,736	33,845	75,462	253,042	1,123,470	370,327	1,025,554
Income (loss) from operations	(6,516)	(14,737)	10,964	186,466	342,464	189,490	326,281
Interest income (expense) and other, net	440	47	(896)	(1,551)	4,190	719	(1,198)
Income (loss) before income taxes	(6,076)	(14,690)	10,068	184,915	346,654	190,209	325,083
Provision for income taxes			3,083	85,259	241,006	132,241	182,047
Net income (loss)	$ (6,076)	$ (14,690)	$ 6,985	$ 99,656	$ 105,648	$ 57,968	$ 143,036
Net income (loss) per share:							
Basic	$ (0.14)	$ (0.22)	$ 0.07	$ 0.86	$ 0.77	$ 0.44	$ 0.93
Diluted	$ (0.14)	$ (0.22)	$ 0.04	$ 0.45	$ 0.41	$ 0.23	$ 0.54
Number of shares used in per share calculations:							
Basic	42,445	67,032	94,523	115,242	137,697	131,525	153,263
Diluted	42,445	67,032	186,776	220,633	256,638	253,024	265,223

The following table presents a summary of our balance sheet data at June 30, 2004:

On an actual basis.

On a pro forma as adjusted basis to give effect to the conversion of all outstanding shares of our preferred stock into shares of Class B common stock prior to the closing of this offering and to further give effect to the sale by us of shares of our Class A common stock at our initial public offering price of $ 85.00 per share, and the receipt of the net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, as set forth under Use of Proceeds and Cash and Capitalization.

	At June 30, 2004	
	Actual	Pro Forma as Adjusted
	(in thousands) (unaudited)	
Consolidated Balance Sheet Data:		
Cash, cash equivalents and short-term investments	$ 548,687	$ 1,712,255
Total assets	1,328,022	2,491,590
Total long-term liabilities	58,766	58,766
Deferred stock-based compensation	(352,815)	(352,815)
Total stockholders equity	1,016,999	2,180,567

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RISK FACTORS

An investment in Google involves significant risks. You should read these risk factors carefully before deciding whether to invest in our company. The following is a description of what we consider our key challenges and risks.

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 and Yahoo. Microsoft has announced plans to develop a new web search technology that may make web search a more integrated part of the Windows operating system. We expect that Microsoft will increasingly use its financial and engineering resources to compete with us. Yahoo has become an increasingly significant competitor, having acquired Overture Services, which offers Internet advertising solutions that compete with our AdWords and AdSense programs, as well as the Inktomi, AltaVista and AllTheWeb search engines. Since June 2000, Yahoo has used, to varying degrees, our web search technology on its web site to provide web search services to its users. We have notified Yahoo of our election to terminate our agreement effective July 2004. This agreement with Yahoo accounted for less than 3% of our revenues for the year ended December 31, 2003 and less than 2% of our revenues for the six months ended June 30, 2004.

Both Microsoft and Yahoo have more employees than we do (in Microsoft s case, currently more than 20 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. 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 products and services. If Microsoft or Yahoo are successful in providing similar or better web search results compared to ours or leverage their platforms 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 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. 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.

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

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

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

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

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

Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our operating results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual expenses as a percentage of our revenues may be significantly different from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in this Risk Factors section, and the following factors, may affect our operating results:

Our ability to continue to attract users to our web sites.

Our ability to attract advertisers to our AdWords program.

Our ability to attract web sites to our AdSense program.

The mix in our 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.

General economic conditions and those economic conditions specific to the Internet and Internet advertising.

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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 slows, we expect that the cyclicality and seasonality in our business may become more pronounced and may in the future 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 will use. 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 on bases in addition to quality of search results 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 97% of our revenues in 2003 and 98% of our revenues in the six months ended June 30, 2004 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 otherwise benefit from our association with them. The loss of these members could prevent us from receiving the benefits we receive from our association with these Google Network members, which 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 represented approximately 43% of our revenues in 2003, and approximately 50% of our revenues for the six months ended June 30, 2004. 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

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Network member, America Online, Inc., primarily through our AdSense program accounted for approximately 15%, 16% and 13% of our revenues in 2002, 2003 and in the six months ended June 30, 2004. 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. 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.
- Documenting all of our information technology systems and our business processes for our ad systems and our billing systems.
- Improving our information technology infrastructure to maintain the effectiveness of our search systems.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our brand and operating results could be harmed. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. For example, during our 2002 audit, our external auditors brought to our attention a need to increase restrictions on employee access to our advertising system and automate more of our financial processes. The auditors identified these issues together as a reportable condition, which means that these were matters that in the auditors judgment could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. In 2003, we devoted significant resources to remediate and improve our internal controls. Although we believe that these efforts have strengthened our internal controls and addressed the concerns that gave rise to the reportable condition in 2002, we are continuing to work to improve our internal controls, including in the areas of access and security. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

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We intend to migrate critical financial functions to a third-party provider. If this potential transition is not successful, our business and operations could be disrupted and our operating results would 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; however, we cannot be sure that the arrangement will be completed and implemented. The third-party provider will also 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 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 result in customer dissatisfaction, disrupt our operations and adversely affect operating results. We will have significantly less control over the systems and processes than if we maintained and operated them ourselves, which increases our risk. 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. To date, we have engaged in relatively little direct brand promotion activities. This enhances the risk that we may not successfully implement brand enhancement efforts in the future.

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 recently announced Gmail email service to match relevant ads to the content of email messages. Some people have also reacted negatively to the fact that our search technology can be used to help people find hateful or derogatory information on the web. 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.

An increasing 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, this offering may create 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. 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.

We seek to obtain patent protection for our innovations. It is possible, however, that some of these innovations may not be protectable. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable.

We also face risks associated with our trademarks. For example, there is a risk that the word Google could become so commonly used that it becomes synonymous with the word search. If this happens, we could lose protection for this trademark, which could result in other people using the word Google to refer to their own products, thus diminishing our brand.

We also seek to maintain certain intellectual property as trade secrets. The secrecy could be compromised by 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

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violations of intellectual property rights. As we face increasing competition, 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 management resources and attention. In addition, many of our agreements with members of our Google Network require us to indemnify these members for 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 stop using technology found to be in violation of a third party s rights. We may have to seek a license for the technology, which may not be available on reasonable terms and may significantly increase our operating expenses. The technology also may not be available for license to us at all. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology 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. For example, Overture Services (now owned by Yahoo) sued us, claiming that the Google AdWords program infringes certain claims of an Overture Services patent. It also claimed that the patent relates to Overture Services own bid-for-ad placement business model and its pay-for-performance technologies. We recently settled this dispute.

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. A court in France has held us liable for allowing advertisers to select certain trademarked terms as keywords. We have appealed this decision. We were also subject to two lawsuits in Germany on similar matters where one court preliminarily reached a similar conclusion as the court in France, while another court held that we are not liable for the actions of our advertisers prior to notification of trademark rights. We are litigating similar issues in other cases in the U.S., France, Germany and Italy.

In order to provide users with more useful ads, we have recently revised our trademark policy in the U.S. and Canada. Under our new policy, we no longer disable ads due to selection by our advertisers of trademarks as keyword triggers for the ads. As a result of this change in policy, we may be subject to more trademark infringement lawsuits. Defending these lawsuits could take 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.

We have also been notified by third parties that they believe features of certain of our products, including Google WebSearch, Google News and Google Image Search, violate their copyrights. 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.

Expansion into international markets is important to our long-term success, and our inexperience in the operation of our business outside the U.S. increases the risk that our international expansion efforts will not be successful.

We opened our first office outside the U.S. in 2001 and have only limited experience with operations outside the U.S. Expansion into international markets requires management attention and resources. In addition, we face the following additional risks associated with our expansion outside the U.S.:

- Challenges caused by distance, language and cultural differences.

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Longer payment cycles in some countries.

Credit risk and higher levels of payment fraud.

Legal and regulatory restrictions.

Currency exchange rate fluctuations.

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

Political and economic instability and export restrictions.

Potentially adverse tax consequences.

Higher costs associated with doing business internationally.

These risks could harm our international expansion efforts, which would in turn harm our business and 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 our receipt of information from, and provision of information to, our users, which may impair our users experience with 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. 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, our reputation may be harmed, and our communications with certain users could be impaired. This could result in a decline in user traffic and associated ad revenues, which would damage our business.

If we fail to detect click-through fraud, we could lose the confidence of our advertisers, thereby causing our business to suffer.

We are exposed to the risk of fraudulent clicks on our ads by persons seeking to increase the advertising fees paid to our Google Network members. We have regularly refunded revenue that our advertisers have paid to us and that was later attributed to click-through fraud, and we expect to do so in the future. Click-through fraud occurs when a person clicks on a Google AdWords ad displayed on a web site in order to generate the revenue

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share payment to the Google Network member rather than to view the underlying content. If we are unable to stop this fraudulent activity, these refunds may increase. If we find new evidence of past fraudulent clicks we may have to issue refunds retroactively of amounts previously paid to our Google Network members. This would negatively affect our profitability, and these types of fraudulent activities could hurt our brand. If fraudulent clicks are not detected, the affected advertisers may experience a reduced return on their investment in our advertising programs because the fraudulent clicks will not lead to potential revenue for the advertisers. This could lead the advertisers to become dissatisfied with our advertising programs, which could lead to loss of advertisers and revenue.

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 elements of 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 collection, use or sharing of personal information or other privacy-related matters, even if unfounded, could damage our reputation and operating results. Recently, several groups have raised privacy concerns in connection with our Gmail free email service which we announced in April 2004 and these concerns have attracted a significant amount of public commentary and attention. The concerns relate principally to the fact that Gmail uses computers to match advertisements to the content of a user s email message when email messages are viewed using the Gmail service. Privacy concerns have also arisen with our products that provide improved access to personal information that is already publicly available, but that we have made more readily accessible by the public.

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

We also face risks from legislation that could be passed in the future. For example, at least two states have introduced legislation that could interfere with or prohibit our Gmail free advertising-supported email service that was recently announced as a test service. The legislation, as originally proposed in California and Massachusetts, would make it more difficult for us to operate or would prohibit the aspects of the service that uses computers to match advertisements to the content of a user s email message when email messages are viewed using the Gmail service. While the California legislation has been modified since being introduced so that it does not inhibit the operation of the Gmail service, the legislation has not been finally adopted. If this legislation is adopted as originally introduced, or other similar legislation is adopted, it could prevent us from implementing the Gmail service in the affected states. This could impair our ability to compete in the email services market.

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 that 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, their initial grants are usually much larger than follow-on 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 grants to Eric, Larry or Sergey. Larry and Sergey are fully vested, and only a small portion of Eric s stock is subject to

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future vesting. 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 or by future arrangements, such as through cash bonuses, may not be as effective as in the past. 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, may increase the risk that we will not continue to be successful and increases the risk of your investment.

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. 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 2004,

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we expect to spend substantial amounts to purchase or lease data centers and equipment and to 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 going to be 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 co-location 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 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

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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.

If we account for employee stock options using the fair value method, it could significantly reduce our net income.

There has been ongoing public debate whether stock options granted to employees should be treated as a compensation expense and, if so, how to properly value such charges. On March 31, 2004, the Financial Accounting Standard Board (FASB) issued an Exposure Draft, *Share-Based Payment: an amendment of FASB Statements No. 123 and 95*, which would require a company to recognize, as an expense, the fair value of stock options and other stock-based compensation to employees beginning in 2005 and subsequent reporting periods. Currently, we record deferred stock-based compensation to the extent that the reassessed value for accounting purposes of the stock on the date of grant exceeds the exercise price of the option. We recognize compensation expense as we amortize the deferred stock-based compensation amounts on an accelerated basis over the related vesting periods. If we had used the fair value method of accounting for stock options granted to employees prior to July 1, 2004 using a Black Scholes option valuation formula, our net income would have been $2.4 million less than reported in the year ended December 31, 2003 and $2.8 million less than reported in the six months ended June 30, 2004. If we elect or are required to record an expense for our stock-based compensation plans using the fair value method as described in the Exposure Draft, we could have on-going accounting charges significantly greater than those we would have recorded under our current method of accounting for stock options. See Note 1 of Notes to Consolidated Financial Statements included in this prospectus for a more detailed presentation of accounting for stock-based compensation plans.

Payments to certain of our Google Network members has 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 Networks 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 to the Google Network members. However, individual agreements have resulted in guaranteed minimum and other payments to a Google Network member in excess of the related fees we receive from advertisers. In 2003, we recognized $22.5 million in cost of revenues related to such payments in excess of revenues for such agreements. In the six months ended June 30, 2004, we recognized $18.2 million in cost of revenues related to such payments in excess of revenues for such agreements. At December 31, 2003 and June 30, 2004, our

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aggregate outstanding minimum guarantee commitments totaled approximately $477.0 million and $369.4 million. These commitments expire between 2004 and 2007. We may recognize cost of revenues related to payments to certain Google Network members in excess of the related fees we receive from advertisers in the future in connection with certain AdSense agreements, which could adversely affect our profitability.

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 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 rely on insurance to mitigate some risks and, to the extent the cost of insurance increases or we are unable to maintain sufficient insurance to mitigate the risks, our operating results may be diminished.

We contract for insurance to cover 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. 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 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.

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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 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.

Shares issued and options granted under our stock plans exceeded limitations in federal and state securities laws, the result of which is that the holders of these shares and/or options may have rescission rights that could require us to reacquire the shares and/or options for an

aggregate repurchase price of up to $25.9 million.

Shares issued and options granted under our 1998 Stock Plan, our 2003 Stock Plan, our 2003 Stock Plan (No. 2) and our 2003 Stock Plan (No. 3) from September 2001 through July 2004 may not have been exempt from registration or qualification under federal securities laws and the securities laws of certain states. Certain

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of the shares issued during this period may not have been exempt from registration and qualification requirements under Rule 701 under the Securities Act of 1933 and under those state securities laws that provide an exemption to the extent the requirements under Rule 701 are met. We became aware that we were approaching the numeric limitations prescribed by Rule 701 in September 2002 and thereafter determined that we could not continue to count on being able to rely on Rule 701 to provide an exemption from the registration requirements of the Securities Act of 1933. In addition, continued compliance under Rule 701 would have required broad dissemination of detailed financial information regarding our business, which would have been strategically disadvantageous to our company. In evaluating how to issue stock upon exercise of outstanding options in light of these limitations we determined we would utilize private placement exemptions provided by Section 4(2) of the Securities Act of 1933 in order to exempt these issuances from federal registration requirements notwithstanding the factual and legal uncertainties inherent in Section 4(2). These uncertainties arise because analyzing whether or not issuances of securities qualify for the exemptions afforded by Section 4(2) involves a number of subjective determinations including whether the number of offerees constitutes a general solicitation, the financial sophistication of offerees and their access to information regarding the issuer, as well as whether the offering was designed to result in a distribution of shares to the general public. We considered various alternatives in determining to rely on the exemption provided by Section 4(2) despite its inherent uncertainties. We considered ceasing granting options and shares to service providers. However, we determined that this would be detrimental to our development, as equity compensation was an essential ingredient to building our company. We also considered becoming a reporting company for the purposes of federal securities laws. We determined that this too would be contrary to the best interests of our stockholders. We therefore concluded that relying on Section 4(2) despite its uncertainties was in the best interest of our security holders. Because of this uncertainty, the options we granted and the shares issued upon exercise of these options during this period may have been issued in violation of either federal or state securities laws, or both, and may be subject to rescission. In order to address this issue, we intend to make a rescission offer to the holders of these shares and options as soon as practicable after the completion of the offering of our Class A common stock and, in any event within 30 days of the effective date of this registration statement, assuming the offering has been completed at such time. We will be making this rescission offer to 1,406 persons who are or were residents of Arkansas, California, Colorado, Connecticut, the District of Columbia, Georgia, Illinois, Maryland, Massachusetts, Michigan, Nevada, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Texas, Virginia and Washington.

If this rescission offer is accepted, we could be required to make aggregate payments to the holders of these shares and options of up to $25.9 million, which includes statutory interest. For options, this exposure reflects the costs of offering to rescind the issuance of the outstanding options by paying an amount equal to 20% of the aggregate exercise price for the entire option, plus statutory interest. However, it is possible that an optionholder could argue that this does not represent an adequate remedy for the issuance of the option in violation of applicable securities laws, and if a court were to impose a greater remedy, our exposure as a result of the rescission offer could be higher. For issuances of common stock, this exposure is calculated by reference to the acquisition price of the common stock, plus statutory interest. Federal securities laws do not provide that a rescission offer will terminate a purchaser s right to rescind a sale of stock that was not registered as required or was not otherwise exempt from such registration requirements. If any or all of the offerees reject the rescission offer, we may continue to be liable under federal and state securities laws for up to an amount equal to the value of all options and common stock granted or issued since September 2001 plus any statutory interest we may be required to pay. We also understand that the Securities and Exchange Commission has initiated an informal inquiry into this matter and certain state regulators, including California, have requested additional information. If it is determined that we offered securities without properly registering them under federal or state law, or securing an exemption from registration, regulators could impose monetary fines or other sanctions as provided under these laws. See Rescission Offer.

Risks Related to the Auction Process for Our Offering

Our stock price could decline rapidly and significantly.

Our initial public offering price will be determined by an auction process conducted by us and our underwriters. We believe this auction process will provide information with respect to the market demand for our

Class A common stock at the time of our initial public offering. However, this information may have no relation to market demand for our Class A common stock once trading begins. We expect that the bidding process will reveal a clearing price for shares of our Class A common stock offered in the auction. The auction clearing price is the highest price at which all of the shares offered (including shares subject to the underwriters over-allotment option) may be sold to potential investors. Although we and our underwriters may elect to set the initial public offering price below the auction clearing price, we intend to set an initial public offering price that is equal to the clearing price. If there is little or no demand for our shares at or above the initial public offering price once trading begins, the price of our shares would decline following our initial public offering.

The auction process for our public offering may result in a phenomenon known as the winner s curse, and, as a result, investors may experience significant losses.

The auction process for our initial public offering may result in a phenomenon known as the winner s curse. At the conclusion of the auction, bidders that receive allocations of shares in this offering (successful bidders) may infer that there is little incremental demand for our shares above or equal to the initial public offering price. As a result, successful bidders may conclude that they paid too much for our shares and could seek to immediately sell their shares to limit their losses should our stock price decline. In this situation, other investors that did not submit successful bids may wait for this selling to be completed, resulting in reduced demand for our Class A common stock in the public market and a significant decline in our stock price. Therefore, we caution investors that submitting successful bids and receiving allocations may be followed by a significant decline in the value of their investment in our Class A common stock shortly after our offering.

The auction process for our initial public offering may result in a situation in which less price sensitive investors play a larger role in the determination of our offering price and constitute a larger portion of the investors in our offering, and, therefore, the offering price may not be sustainable once trading of our Class A common stock begins.

In a typical initial public offering, a majority of the shares sold to the public are purchased by professional investors that have significant experience in determining valuations for companies in connection with initial public offerings. These professional investors typically have access to, or conduct their own independent, research and analysis regarding investments in initial public offerings. Other investors typically have less access to this level of research and analysis, and as a result, may be less sensitive to price in participating in our auction process. Because of our auction process and the broad consumer awareness of Google, these less price sensitive investors may have a greater influence in setting our initial public offering price and may have a higher level of participation in our offering than is normal for initial public offerings. This, in turn, could cause our auction process to result in an initial public offering price that is higher than the prices professional investors are willing to pay. As a result, our stock price may decrease once trading of our Class A common stock begins. Also, because professional investors may have a substantial degree of influence on the trading price of our shares over time, the price of our Class A common stock may decline after our offering. Further, if our initial public offering price is above the level that investors determine is reasonable for our shares, some investors may attempt to short the stock after trading begins, which would create additional downward pressure on the trading price of our Class A common stock.

Successful bidders should not expect to sell our shares for a profit shortly after our Class A common stock begins trading.

During the bidding process, we and our managing underwriters will monitor the master order book to evaluate the demand that exists for our initial public offering. Based on this information, we and our underwriters may revise the price range for our initial public offering set forth on the cover of this prospectus. In addition, we and the selling stockholders may decide to change the number of shares of Class A common stock offered through this prospectus. These increases in the initial public offering price and the number of shares offered may result in there being little or no demand for our shares at or above the initial public offering price. If this were to occur, the price of our shares would decline following this offering. If your objective is to make a short term profit by selling the shares you purchase in the offering shortly after trading begins, you should not submit a bid in the auction.

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Successful bidders may receive the full number of shares subject to their bids, so potential investors should not make bids for more shares than they are prepared to purchase.

We and our underwriters will conduct an auction to assess the demand for our shares of Class A common stock. We intend to set the initial public offering price equal to the auction clearing price. If we do this, the number of shares represented by successful bids will likely equal the number of shares offered by this prospectus, and successful bidders may be allocated all of the shares that they bid for in the auction. Therefore, we caution investors against submitting a bid that does not accurately represent the number of shares of our Class A common stock that they are willing and prepared to purchase.

Our initial public offering price may have little or no relationship to the price that would be established using traditional valuation methods, and therefore, the initial public offering price may not be sustainable once trading begins.

We intend to set an initial public offering price that is equal to the auction clearing price. The offering price of our shares may have little or no relationship to the price that would be established using traditional indicators of value, such as our future prospects and those of our industry in general; our sales, earnings and other financial and operating information; multiples of earnings, cash flows and other operating metrics; market prices of securities and other financial and operating information of companies engaged in activities similar to ours; and the views of research analysts. As a result, our initial public offering price may not be sustainable once trading begins, and the price of our Class A common stock may decline.

If research analysts publish or establish target prices for our Class A common stock that are below the initial public offering price or then current trading market price of our shares, the price of our shares of Class A common stock may fall.

Although the initial public offering price of our shares may have little or no relationship to the price determined using traditional valuation methods, we believe that research analysts will rely upon these methods to establish target prices for our Class A common stock. If research analysts, including research analysts affiliated with our underwriters, publish target prices for our Class A common stock that are below our initial public offering price or the then current trading market price of our shares, it could cause our stock price to decline significantly.

Submitting a bid does not guarantee an allocation of shares of our Class A common stock, even if a bidder submits a bid at or above the initial public offering price.

Our underwriters may require that bidders confirm their bids before the auction for our initial public offering closes. If a bidder is requested to confirm a bid and fails to do so, that bid will be rejected and will not receive an allocation of shares even if the bid is at or above the initial public offering price. In addition, we, in consultation with our underwriters, may determine, in our sole discretion, that some bids that are at or above the initial public offering price are manipulative and disruptive to the bidding process, in which case such bids will be rejected.

The systems and procedures used to implement our auction and the results of our auction could harm our business and our brand.

Only a small number of initial public offerings have been accomplished using auction processes in the U.S. and other countries, and none on the scale of our offering. We expect our auction structure to face scalability and operational challenges. Our underwriters systems that manage the auction process could fail to operate as anticipated. This could require us to delay our initial public offering, potentially even after our underwriters have started taking bids, and harm our brand. Our underwriters must modify their internal systems and procedures to accommodate our auction process. This could increase the risk that our underwriters systems or procedures fail to operate as anticipated.

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Many of our users may submit bids in our auction with the hope of becoming stockholders. If these users either do not receive share allocations in our offering or if our share price immediately declines after the offering, our brand could be tarnished and users and investors could become frustrated with us, potentially decreasing their use of our products and services. If this occurs, our business could suffer.

Risks Related to Our Offering

If our involvement in a September 2004 magazine article about Google were held to be in violation of the Securities Act of 1933, we could be required to repurchase securities sold in this offering. You should rely only on statements made in this prospectus in determining whether to purchase our shares.

Information about Google has been published in an article appearing in the September 2004 issue of *Playboy Magazine* and entitled Playboy Interview: Google Guys. The text of the article, which is included in this prospectus as Appendix B, contains information derived from an interview of Larry and Sergey conducted in April 2004, prior to the filing of our registration statement of which this prospectus is a part. The article includes quotations from Larry and Sergey, and has been reprinted by a number of news media outlets. The article presented certain statements about our company in isolation and did not disclose many of the related risks and uncertainties described in this prospectus. As a result, the article should not be considered in isolation and you should make your investment decision only after reading this entire prospectus carefully.

You should carefully evaluate all the information in this prospectus, including the risks described in this section and throughout the prospectus. We have in the past received, and may continue to receive, a high degree of media coverage, including coverage that is not directly attributable to statements made by our officers and employees. You should rely only on the information contained in this prospectus in making your investment decision.

We do not believe that our involvement in the *Playboy Magazine* article constitutes a violation of Section 5 of the Securities Act of 1933. However, if our involvement were held by a court to be in violation of the Securities Act of 1933, we could be required to repurchase the shares sold to purchasers in this offering at the original purchase price, plus statutory interest from the date of purchase, for a period of one year following the date of the violation. We would contest vigorously any claim that a violation of the Securities Act occurred. The SEC has also requested additional information concerning the publication of the article.

Investors should be aware of the following modifications and updates to the article s content:

The article states that our Gmail service, with one gigabyte of storage, has 200 times more storage than our primary competitors. While at the time of its introduction, Gmail had such a substantial storage capacity advantage over competitive offerings, competitors have substantially narrowed the gap.

The article indicates that we had about 1,000 employees. Currently, we have approximately 2,292 employees.

The article states that more than 65 million people use our search engine each day. We believe that, based on data compiled by an unrelated third party research organization, this number represents monthly, not daily, domestic visitors data.

Our stock price may be volatile, and you may not be able to resell shares of our Class A common stock at or above the price you paid.

Prior to this offering, our common stock has not been traded in a public market. We cannot predict the extent to which a trading market will develop or how liquid that market might become. The initial public offering price may not be indicative of prices that will prevail in the trading market. The trading price of our Class A common stock following this offering is therefore likely to be highly volatile and could be subject to wide fluctuations in price 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.

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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.

Changes in earnings estimates or recommendations by securities analysts.

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. Such fluctuations may be even more pronounced in the trading market shortly following this offering. 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 addition, 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.

Future sales of shares by our stockholders could cause our stock price to decline.

We cannot predict the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Sales of our Class A common stock in the public market after the restrictions described in this prospectus lapse, or the perception that those sales may occur, could cause the trading price of our stock to decrease or to be lower than it might be in the absence of those sales or perceptions. Based on shares outstanding as of June 30, 2004, upon completion of this offering, we will have outstanding 271,219,643 shares of common stock, assuming no exercise of the underwriters over-allotment option. We have entered into contractual lock-up agreements with our officers, directors and certain employees and other securityholders, representing the holders of substantially all of our outstanding capital stock. We may, in our sole discretion, permit our officers, directors, employees and current stockholders who are subject to contractual lock-up agreements with us to sell shares prior to the expiration of their lock-up agreements. None of our officers, directors, employees or stockholders have entered into contractual lock-up agreements with the underwriters in connection with this offering. In addition, our employees can only sell vested shares.

We have filed or plan to file shortly after the offering registration statements on Form S-8 and Form S-8/S-3, and a registration statement on Form S-1 relating to our rescission offer. As a result of these registration statements, the selling restriction agreements between us and our stockholders that are described in Shares Eligible For Future Sale and the provisions of Rules 144, 144(k) and 701, the restricted securities will first become available for sale in the public market as follows:

Days After the Date of this Prospectus	Additional Shares Eligible for Public Sale
At 15 days after the date of this prospectus and various times thereafter	4,667,483
At 90 days after the date of this prospectus and various times thereafter	39,071,376
At 120 days after the date of this prospectus and various times thereafter	24,874,091
At 150 days after the date of this prospectus and various times thereafter	24,874,091
At 180 days after the date of this prospectus and various times thereafter	176,794,161

147,349,935 of these shares are held by directors, executive officers and other affiliates and will be subject to volume limitations under Rule 144 under the Securities Act of 1933 and various vesting agreements. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline. The selling restriction agreements between us and our stockholders will allow significantly more shares to become freely tradeable soon after completion of the offering than is typical of initial public offerings.

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In addition, we have agreed with our underwriters not to sell any shares of our common stock for a period of 180 days after the date of this prospectus. However, this agreement is subject to a number of exceptions, including an exception that allows us to issue an unlimited number of shares in connection with mergers and acquisition transactions, joint ventures or other strategic transactions. Morgan Stanley & Co. Incorporated and Credit Suisse First Boston LLC, on behalf of the underwriters, may release us from this lock-up arrangement without notice at any time. After the expiration of the 180-day period, there is no contractual restriction on our ability to issue additional shares. Any sales of common stock by us, or the perception that such sales could occur, could cause our stock price to decline.

We may apply the proceeds of this offering to uses that do not improve our operating results or increase the value of your investment.

We intend to use the net proceeds from this offering for general corporate purposes, including working capital and capital expenditures. We may also use a portion of the net proceeds to acquire or invest in companies and technologies that we believe will complement our business. However, we do not have more specific plans for the net proceeds from this offering and will have broad discretion in how we use the net proceeds of this offering. These proceeds could be applied in ways that do not improve our operating results or increase the value of your investment.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price of our Class A common stock is substantially higher than the net tangible book value per share of our Class A common stock immediately after this offering. Therefore, if you purchase our Class A common stock in this offering, you will incur an immediate dilution of $77.34 in net tangible book value per share from the price you paid, based on the initial offering price of $85.00 per share. The exercise of outstanding options and warrants will result in further dilution. For a further description of the dilution that you will experience immediately after this offering, please see Dilution.

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.

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. We will incur costs associated with our public company reporting requirements. We also anticipate that we will incur costs associated with recently adopted corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as well as new rules implemented by the Securities and Exchange Commission and the NASD. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect these new rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

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

After our offering, our Class B common stock will have ten votes per share and our Class A common stock, which is the stock we are selling in this offering, will have one vote per share. We anticipate that our founders,

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executive officers, directors (and their affiliates) and employees will together own approximately 84.8% of our Class B common stock, representing approximately 83.6% of the voting power of our outstanding capital stock. In particular, following this offering, our two founders and our CEO, Larry, Sergey and Eric, will control approximately 38.1% of our outstanding Class B common stock, representing approximately 37.6% of the voting power of our outstanding capital stock. Larry, Sergey and Eric will 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 will limit 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, as amended and restated upon the closing of this offering, 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 will 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 authorize 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. For a description of our capital stock, see Description of Capital Stock.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, intend, expect and similar expressions are identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short term and long term business operations and objectives, and financial needs. In addition, a number of our objectives, intentions, expectations or goals described in Auction Process for qualification of bidders, the bidding process, the auction closing process, the pricing process and the allocation process are also forward-looking statements. These statements are based on current expectations or objectives of the auction process being used for our initial public offering that are inherently uncertain. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Risk Factors.

In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

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LETTER FROM THE FOUNDERS

AN OWNER S MANUAL FOR GOOGLE S SHAREHOLDERS[1]

INTRODUCTION

Google is not a conventional company. We do not intend to become one. Throughout Google s evolution as a privately held company, we have managed Google differently. We have also emphasized an atmosphere of creativity and challenge, which has helped us provide unbiased, accurate and free access to information for those who rely on us around the world.

Now the time has come for the company to move to public ownership. This change will bring important benefits for our employees, for our present and future shareholders, for our customers, and most of all for Google users. But the standard structure of public ownership may jeopardize the independence and focused objectivity that have been most important in Google s past success and that we consider most fundamental for its future. Therefore, we have implemented a corporate structure that is designed to protect Google s ability to innovate and retain its most distinctive characteristics. We are confident that, in the long run, this will benefit Google and its shareholders, old and new. We want to clearly explain our plans and the reasoning and values behind them. We are delighted you are considering an investment in Google and are reading this letter.

Sergey and I intend to write you a letter like this one every year in our annual report. We ll take turns writing the letter so you ll hear directly from each of us. We ask that you read this letter in conjunction with the rest of this prospectus.

SERVING END USERS

Sergey and I founded Google because we believed we could provide an important service to the world instantly delivering relevant information on virtually any topic. Serving our end users is at the heart of what we do and remains our number one priority.

Our goal is to develop services that significantly improve the lives of as many people as possible. In pursuing this goal, we may do things that we believe have a positive impact on the world, even if the near term financial returns are not obvious. For example, we make our services as widely available as we can by supporting over 90 languages and by providing most services for free. Advertising is our principal source of revenue, and the ads we provide are relevant and useful rather than intrusive and annoying. We strive to provide users with great commercial information.

We are proud of the products we have built, and we hope that those we create in the future will have an even greater positive impact on the world.

LONG TERM FOCUS

As a private company, we have concentrated on the long term, and this has served us well. As a public company, we will do the same. In our opinion, outside pressures too often tempt companies to sacrifice long term opportunities to meet quarterly market expectations. Sometimes this pressure has caused companies to manipulate financial results in order to make their quarter. In Warren Buffett s words, We won t smooth quarterly or annual results: If earnings figures are lumpy when they reach headquarters, they will be lumpy when they reach you.

If opportunities arise that might cause us to sacrifice short term results but are in the best long term interest of our shareholders, *we will take those opportunities*. We will have the fortitude to do this. We would request that our shareholders take the long term view.

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[1] Much of this was inspired by Warren Buffett s essays in his annual reports and his An Owner s Manual to Berkshire Hathaway shareholders.

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You might ask how long is long term? Usually we expect projects to have some realized benefit or progress within a year or two. But, we are trying to look forward as far as we can. Despite the quickly changing business and technology landscape, we try to look at three to five year scenarios in order to decide what to do now. We try to optimize total benefit over these multi-year scenarios. While we are strong advocates of this strategy, it is difficult to make good multi-year predictions in technology.

Many companies are under pressure to keep their earnings in line with analysts forecasts. Therefore, they often accept smaller, predictable earnings rather than larger and less predictable returns. Sergey and I feel this is harmful, and we intend to steer in the opposite direction.

Google has had adequate cash to fund our business and has generated additional cash through operations. This gives us the flexibility to weather costs, benefit from opportunities and optimize our long term earnings. For example, in our ads system we make many improvements that affect revenue in both directions. These are in areas like end user relevance and satisfaction, advertiser satisfaction, partner needs and targeting technology. We release improvements immediately rather than delaying them, even though delay might give smoother financial results. You have our commitment to execute quickly to achieve long term value rather than making the quarters more predictable.

Our long term focus does have risks. Markets may have trouble evaluating long term value, thus potentially reducing the value of our company. Our long term focus may simply be the wrong business strategy. Competitors may be rewarded for short term tactics and grow stronger as a result. As potential investors, you should consider the risks around our long term focus.

We will make business decisions with the long term welfare of our company and shareholders in mind and not based on accounting considerations.

Although we may discuss long term trends in our business, we do not plan to give earnings guidance in the traditional sense. We are not able to predict our business within a narrow range for each quarter. We recognize that our duty is to advance our shareholders interests, and we believe that artificially creating short term target numbers serves our shareholders poorly. We would prefer not to be asked to make such predictions, and if asked we will respectfully decline. A management team distracted by a series of short term targets is as pointless as a dieter stepping on a scale every half hour.

RISK VS REWARD IN THE LONG RUN

Our business environment changes rapidly and needs long term investment. We will not hesitate to place major bets on promising new opportunities.

We will not shy away from high-risk, high-reward projects because of short term earnings pressure. Some of our past bets have gone extraordinarily well, and others have not. Because we recognize the pursuit of such projects as the key to our long term success, we will continue to seek them out. For example, we would fund projects that have a 10% chance of earning a billion dollars over the long term. Do not be surprised if we place smaller bets in areas that seem very speculative or even strange when compared to our current businesses. Although we cannot quantify the specific level of risk we will undertake, as the ratio of reward to risk increases, we will accept projects further outside our current businesses, especially when the initial investment is small relative to the level of investment in our current businesses.

We encourage our employees, in addition to their regular projects, to spend 20% of their time working on what they think will most benefit Google. This empowers them to be more creative and innovative. Many of our significant advances have happened in this manner. For example, AdSense for content and Google News were both prototyped in 20% time. Most risky projects fizzle, often teaching us something. Others succeed and become attractive businesses.

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As we seek to maximize value in the long term, we may have quarter-to-quarter volatility as we realize losses on some new projects and gains on others. We would love to better quantify our level of risk and reward for you going forward, but that is very difficult. Even though we are excited about risky projects, we expect to devote the vast majority of our resources to improvements to our main businesses (currently search and advertising). Most employees naturally gravitate toward incremental improvements in core areas so this tends to happen naturally.

EXECUTIVE ROLES

We run Google as a triumvirate. Sergey and I have worked closely together for the last eight years, five at Google. Eric, our CEO, joined Google three years ago. The three of us run the company collaboratively with Sergey and me as Presidents. The structure is unconventional, but we have worked successfully in this way.

To facilitate timely decisions, Eric, Sergey and I meet daily to update each other on the business and to focus our collaborative thinking on the most important and immediate issues. Decisions are often made by one of us, with the others being briefed later. This works because we have tremendous trust and respect for each other and we generally think alike. Because of our intense long term working relationship, we can often predict differences of opinion among the three of us. We know that when we disagree, the correct decision is far from obvious. For important decisions, we discuss the issue with a larger team appropriate to the task. Differences are resolved through discussion and analysis and by reaching consensus. Eric, Sergey and I run the company without any significant internal conflict, but with healthy debate. As different topics come up, we often delegate decision-making responsibility to one of us.

We hired Eric as a more experienced complement to Sergey and me to help us run the business. Eric was CTO of Sun Microsystems. He was also CEO of Novell and has a Ph.D. in computer science, a very unusual and important combination for Google given our scientific and technical culture. This partnership among the three of us has worked very well and we expect it to continue. The shared judgments and extra energy available from all three of us has significantly benefited Google.

Eric has the legal responsibilities of the CEO and focuses on management of our vice presidents and the sales organization. Sergey focuses on engineering and business deals. I focus on engineering and product management. All three of us devote considerable time to overall management of the company and other fluctuating needs. We also have a distinguished board of directors to oversee the management of Google. We have a talented executive staff that manages day-to-day operations in areas such as finance, sales, engineering, human resources, public relations, legal and product management. We are extremely fortunate to have talented management that has grown the company to where it is today they operate the company and deserve the credit.

CORPORATE STRUCTURE

We are creating a corporate structure that is designed for stability over long time horizons. By investing in Google, you are placing an unusual long term bet on the team, especially Sergey and me, and on our innovative approach.

We want Google to become an important and significant institution. That takes time, stability and independence. We bridge the media and technology industries, both of which have experienced considerable consolidation and attempted hostile takeovers.

In the transition to public ownership, we have set up a corporate structure that will make it harder for outside parties to take over or influence Google. This structure will also make it easier for our management team to follow the long term, innovative approach emphasized earlier. This structure, called a dual class voting structure, is described elsewhere in this prospectus. The Class A common stock we are offering has one vote per share, while the Class B common stock held by many current shareholders has 10 votes per share.

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The main effect of this structure is likely to leave our team, especially Sergey and me, with increasingly significant control over the company s decisions and fate, as Google shares change hands. After the IPO, Sergey, Eric and I will control 37.6% of the voting power of Google, and the executive management team and directors as a group will control 61.4% of the voting power. New investors will fully share in Google s long term economic future but will have little ability to influence its strategic decisions through their voting rights.

While this structure is unusual for technology companies, similar structures are common in the media business and has had a profound importance there. The New York Times Company, The Washington Post Company and Dow Jones, the publisher of *The Wall Street Journal*, all have similar dual class ownership structures. Media observers have pointed out that dual class ownership has allowed these companies to concentrate on their core, long term interest in serious news coverage, despite fluctuations in quarterly results. Berkshire Hathaway has implemented a dual class structure for similar reasons. From the point of view of long term success in advancing a company s core values, we believe this structure has clearly been an advantage.

Some academic studies have shown that from a purely economic point of view, dual class structures have not harmed the share price of companies. Other studies have concluded that dual class structures have negatively affected share prices, and we cannot assure you that this will not be the case with Google. The shares of each of our classes have identical economic rights and differ only as to voting rights.

Google has prospered as a private company. We believe a dual class voting structure will enable Google, as a public company, to retain many of the positive aspects of being private. We understand some investors do not favor dual class structures. Some may believe that our dual class structure will give us the ability to take actions that benefit us, but not Google s shareholders as a whole. We have considered this point of view carefully, and we and the board have not made our decision lightly. We are convinced that everyone associated with Google including new investors will benefit from this structure. However, you should be aware that Google and its shareholders may not realize these intended benefits.

In addition, we have recently expanded our board of directors to include three additional members. John Hennessy is the President of Stanford and has a Doctoral degree in computer science. Art Levinson is CEO of Genentech and has a Ph.D. in biochemistry. Paul Otellini is President and COO of Intel. We could not be more excited about the caliber and experience of these directors.

We believe we have a world class management team impassioned by Google s mission and responsible for Google s success. We believe the stability afforded by the dual class structure will enable us to retain our unique culture and continue to attract and retain talented people who are Google s life blood. Our colleagues will be able to trust that they themselves and their labors of hard work, love and creativity will be well cared for by a company focused on stability and the long term.

As an investor, you are placing a potentially risky long term bet on the team, especially Sergey and me. The two of us, Eric and the rest of the management team recognize that our individual and collective interests are deeply aligned with those of the new investors who choose to support Google. Sergey and I are committed to Google for the long term. The broader Google team has also demonstrated an extraordinary commitment to our long term success. With continued hard work and good fortune, this commitment will last and flourish.

When Sergey and I founded Google, we hoped, but did not expect, it would reach its current size and influence. Our intense and enduring interest was to objectively help people find information efficiently. We also believed that searching and organizing all the world s information was an unusually important task that should be carried out by a company that is trustworthy and interested in the public good. We believe a well functioning society should have abundant, free and unbiased access to high quality information. Google therefore has a responsibility to the world. The dual class structure helps ensure that this responsibility is met. We believe that fulfilling this responsibility will deliver increased value to our shareholders.

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IPO PRICING AND ALLOCATION

It is important to us to have a fair process for our IPO that is inclusive of both small and large investors. It is also crucial that we achieve a good outcome for Google and its current shareholders. This has led us to pursue an auction-based IPO for our entire offering. Our goal is to have a share price that reflects an efficient market valuation of Google that moves rationally based on changes in our business and the stock market. (The auction process is discussed in more detail elsewhere in this prospectus.)

Many companies going public have suffered from unreasonable speculation, small initial share float, and stock price volatility that hurt them and their investors in the long run. We believe that our auction-based IPO will minimize these problems, though there is no guarantee that it will.

An auction is an unusual process for an IPO in the United States. Our experience with auction-based advertising systems has been helpful in the auction design process for the IPO. As in the stock market, if people bid for more shares than are available and bid at high prices, the IPO price will be higher. Of course, the IPO price will be lower if there are not enough bidders or if people bid lower prices. This is a simplification, but it captures the basic issues. Our goal is to have the price of our shares at the IPO and in the aftermarket reflect an efficient market price in other words, a price set by rational and informed buyers and sellers. We seek to achieve a relatively stable price in the days following the IPO and that buyers and sellers receive an efficient market price at the IPO. We will try to achieve this outcome, but of course may not be successful. Our goal of achieving a relatively stable market price may result in Google determining with our underwriters to set the initial public offering price below the auction clearing price.

We are working to create a sufficient supply of shares to meet investor demand at IPO time and after. We are encouraging current shareholders to consider selling some of their shares as part of the offering. These shares will supplement the shares the company sells to provide more supply for investors and hopefully provide a more stable price. Sergey and I, among others, are currently planning to sell a fraction of our shares in the IPO. The more shares current shareholders sell, the more likely it is that they believe the price is not unfairly low. The supply of shares available will likely have an effect on the clearing price of the auction. Since the number of shares being sold is likely to be larger at a high price and smaller at a lower price, investors will likely want to consider the scope of current shareholder participation in the IPO. We may communicate from time to time that we are sellers rather than buyers at certain prices.

While we have designed our IPO to be inclusive for both small and large investors, for a variety of reasons described in Auction Process not all interested investors will be able to receive an allocation of shares in our IPO.

We would like you to invest for the long term, and you should not expect to sell Google shares for a profit shortly after Google s IPO. We encourage investors not to invest in Google at IPO or for some time after, if they believe the price is not sustainable over the long term. Even in the long term, the trading price of Google s stock may decline.

We intend to take steps to help ensure shareholders are well informed. We encourage you to read this prospectus, especially the Risk Factors section. We think that short term speculation without paying attention to price is likely to lose you money, especially with our auction structure. In particular, we caution you that investing in Google through our auction could be followed by a significant decline in the value of your investment after the IPO.

GOOGLERS

Our employees, who have named themselves Googlers, are everything. Google is organized around the ability to attract and leverage the talent of exceptional technologists and business people. We have been lucky to recruit many creative, principled and hard working stars. We hope to recruit many more in the future. We will reward and treat them well.

We provide many unusual benefits for our employees, including meals free of charge, doctors and washing machines. We are careful to consider the long term advantages to the company of these benefits. Expect us to add

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benefits rather than pare them down over time. We believe it is easy to be penny wise and pound foolish with respect to benefits that can save employees considerable time and improve their health and productivity.

The significant employee ownership of Google has made us what we are today. Because of our employee talent, Google is doing exciting work in nearly every area of computer science. We are in a very competitive industry where the quality of our product is paramount. Talented people are attracted to Google because we empower them to change the world; Google has large computational resources and distribution that enables individuals to make a difference. Our main benefit is a workplace with important projects, where employees can contribute and grow. We are focused on providing an environment where talented, hard working people are rewarded for their contributions to Google and for making the world a better place.

DON T BE EVIL

Don t be evil. We believe strongly that in the long term, we will be better served as shareholders and in all other ways by a company that does good things for the world even if we forgo some short term gains. This is an important aspect of our culture and is broadly shared within the company.

Google users trust our systems to help them with important decisions: medical, financial and many others. Our search results are the best we know how to produce. They are unbiased and objective, and we do not accept payment for them or for inclusion or more frequent updating. We also display advertising, which we work hard to make relevant, and we label it clearly. This is similar to a well-run newspaper, where the advertisements are clear and the articles are not influenced by the advertisers payments. We believe it is important for everyone to have access to the best information and research, not only to the information people pay for you to see.

MAKING THE WORLD A BETTER PLACE

We aspire to make Google an institution that makes the world a better place. In pursuing this goal, we will always be mindful of our responsibilities to our shareholders, employees, customers and business partners. With our products, Google connects people and information all around the world for free. We are adding other powerful services such as Gmail, which provides an efficient one gigabyte Gmail account for free. We know that some people have raised privacy concerns, primarily over Gmail s targeted ads, which could lead to negative perceptions about Google. However, we believe Gmail protects a user s privacy. By releasing services, such as Gmail, for free, we hope to help bridge the digital divide. AdWords connects users and advertisers efficiently, helping both. AdSense helps fund a huge variety of online web sites and enables authors who could not otherwise publish. Last year we created Google Grants a growing program in which hundreds of non-profits addressing issues, including the environment, poverty and human rights, receive free advertising. And now, we are in the process of establishing the Google Foundation. We intend to contribute significant resources to the foundation, including employee time and approximately 1% of Google s equity and profits in some form. We hope someday this institution may eclipse Google itself in terms of overall world impact by ambitiously applying innovation and significant resources to the largest of the world s problems.

SUMMARY AND CONCLUSION

Google is not a conventional company. Eric, Sergey and I intend to operate Google differently, applying the values it has developed as a private company to its future as a public company. Our mission and business description are available in the rest of this prospectus; we encourage you to carefully read this information. We will optimize for the long term rather than trying to produce smooth earnings for each quarter. We will support selected high-risk, high-reward projects and manage our portfolio of projects. We will run the company collaboratively with Eric, our CEO, as a team of three. We are conscious of our duty as fiduciaries for our shareholders, and we will fulfill those responsibilities. We will continue to strive to attract creative, committed new employees, and we will welcome support from new shareholders. We will live up to our don t be evil principle by keeping user trust and not accepting payment for search results. We have a dual class structure that is biased toward stability and independence and that requires investors to bet on the team, especially Sergey and me.

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In this letter we have talked about our IPO auction method and our desire for stability and access for all investors. We have discussed our goal to have investors who invest for the long term. Finally, we have discussed our desire to create an ideal working environment that will ultimately drive the success of Google by retaining and attracting talented Googlers.

We have tried hard to anticipate your questions. It will be difficult for us to respond to them given legal constraints during our offering process. We look forward to a long and hopefully prosperous relationship with you, our new investors. We wrote this letter to help you understand our company.

We have a strong commitment to our users worldwide, their communities, the web sites in our network, our advertisers, our investors, and of course our employees. Sergey and I, and the team will do our best to make Google a long term success and the world a better place.

Larry Page Sergey Brin

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AUCTION PROCESS

The following describes the auction process we used for our initial public offering. The auction process being used for our initial public offering differs from methods that have been traditionally used in most other underwritten initial public offerings in the United States. In particular, we and our underwriters will conduct an auction to determine the initial public offering price and the allocation of shares in the offering. We plan to conduct this auction in five stages Qualification; Bidding; Auction Closing; Pricing; and Allocation. Investors that do not submit bids through the auction process will not be eligible for an allocation of shares in our offering. Please see the risks related to the auction process for our offering beginning on page 19.

The Qualification Process

Our objective is to conduct an auction in which you submit informed bids. Before you can submit a bid, you will be required to obtain a bidder ID. Your bidder ID will be issued electronically only after you have visited a web site where you can obtain a bidder ID and followed the steps described at www.ipo.google.com and How to Participate in the Auction for Our IPO on page 42. Before you register for a bidder ID, you should:

- Read this prospectus, including all the risk factors.
- Understand that our initial public offering price is expected to be set at the auction clearing price, and, if there is little or no demand for our shares at or above the initial public offering price once trading begins, the price of our shares would decline.
- Understand that we may modify the price range and the size of our offering multiple times in response to investor demand.
- Understand that our current stockholders, including our founders and members of our management team, are selling, not buying, shares of Class A common stock as part of our initial public offering.
- Understand that we, in consultation with our underwriters, will have the ability to reject bids that we believe have the potential to manipulate or disrupt the bidding process, and that if you submit such a bid, all of the bids you have submitted will be rejected in which case you will not receive an allocation of shares in our initial public offering.
- Understand that 4,667,483 of our shares become available for sale starting as early as 15 days after our initial public offering and that additional shares become available at various times thereafter such that 270,281,202 shares are available for sale within 180 days after our initial public offering. Please carefully review the disclosure set forth under Shares Eligible for Future Sale on page 113.

You may obtain a bidder ID from www.ipo.google.com. We expect the qualification process to end soon. After the qualification process ends, you will not be able to obtain a bidder ID. If you do not obtain a bidder ID, you will not be able to bid in our auction.

We seek to enable all interested investors to have the opportunity to qualify to bid and, following qualification, place bids in the auction for our initial public offering. To help meet this objective, we have selected an underwriter group that serves a broad range of the investing public.

We caution you that our Class A common stock may not be a suitable investment for you even if you obtain a bidder ID. Moreover, even if you obtain a bidder ID, you may not be able to bid in the auction if you do not meet the suitability requirements of the underwriter through which you are seeking to place a bid or as a result of other regulatory requirements as described below. Because each of the brokerage firms makes its own suitability determinations, we encourage you to discuss with your brokerage firm any questions you have regarding their requirements. Finally, even if you obtain a bidder ID and place a bid in the auction, you may not receive an allocation of shares in our offering for a number of reasons described below.

We have not undertaken any efforts to register this offering in any jurisdiction outside the U.S. Except to the limited extent that this offering will be open to certain non-U.S. investors under private placement exemptions in certain countries other than the U.S., individual investors located outside the U.S. should not expect to be eligible

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to participate in this offering. We would have liked to have made the offering more broadly available internationally, but myriad international securities regulations and compliance requirements made this impracticable.

The Bidding Process

Once the auction begins, all investors that have qualified to bid may submit bids in our offering through one of our underwriters. In connection with submitting a bid, you must provide the following information:

- The number of shares you are interested in purchasing.
- The price per share you are willing to pay.
- Additional information to enable the underwriter to identify you, confirm your eligibility and suitability for participating in our initial public offering, and, if you submit a successful bid, consummate a sale of shares to you.

To submit a bid, you should contact one of the following underwriters:

Morgan Stanley & Co. Incorporated
Credit Suisse First Boston LLC
Allen & Company LLC
Citigroup Global Markets Inc.
Goldman, Sachs & Co.
J.P. Morgan Securities Inc.
Lehman Brothers Inc.
UBS Securities LLC
Thomas Weisel Partners LLC
WR Hambrecht + Co., LLC
Deutsche Bank Securities Inc.
Lazard Freres & Co. LLC
Ameritrade, Inc.
M.R. Beal & Company
William Blair & Company L.L.C.
Blaylock & Partners, L.P.
Cazenove Inc.
E*TRADE Securities LLC
Epoch Securities, Inc. (distributed by Charles Schwab & Co., Inc.*)
Fidelity Capital Markets, a division of National Financial Services, LLC
HARRISdirect, LLC
Needham & Company, Inc.
Piper Jaffray & Co.
Samuel A. Ramirez & Co., Inc.
Muriel Siebert & Co. Inc.
Utendahl Capital Group, L.L.C.
Wachovia Capital Markets, LLC
Wells Fargo Securities, LLC

* Charles Schwab & Co., Inc., pursuant to a distribution agreement with Epoch Securities, Inc., is acting solely as a distribution agent with respect to this offering. Charles Schwab & Co., Inc. will receive no compensation for the distribution of Google s Class A common stock.

Bids may be within, above or below the estimated price range for our initial public offering on the cover of this prospectus. Bid prices may be in any increment, including pennies. The minimum size of any bid is generally five shares. However, the minimum size of any bid submitted through HARRISdirect, one of our underwriters, is 100 shares.

The bidding policies of our underwriters vary. Accordingly, the number of bids you may submit through any one underwriter will depend on the bidding policies of that underwriter. Most of our underwriters will permit you to submit an unlimited number of bids. However, UBS Securities, Charles Schwab & Co. and Fidelity Capital Markets will permit bidders to submit only one bid per account. HARRISdirect will permit bidders to submit up to three bids per account. E*TRADE Securities will permit bidders to submit up to five bids per account; however, bidders submitting bids through E*TRADE Securities may not submit bids for more than an aggregate of 10,000 shares per account. Ameritrade will permit bidders to submit up to 30 bids per account. If you decide to submit a bid in our offering, we encourage you to contact the underwriter through which you will submit your bid.

Each underwriter has the ability to receive bids from its customers through one or more of the following means: over the Internet, by telephone, by facsimile or in person. To participate in the auction for our initial public offering, you will be required to agree to accept electronic delivery of this prospectus, the final prospectus, any amendments to this prospectus or the final prospectus, and other communications related to this offering. If you do not consent to electronic delivery, or subsequently revoke that consent prior to the time at which our underwriters accept your bids, you will not be able to submit a bid or participate in our offering. If you revoke your consent after the underwriters accept your bid, a copy of the final prospectus will be delivered to you via U.S. mail. Your consent to electronic delivery of these documents does not constitute consent by you to electronic delivery of other information about us not related to this offering, such as proxy statements and quarterly and annual reports, during and after completion of this offering.

If you are interested in submitting a bid but do not currently have a brokerage account with any of the underwriters named above, you may contact one of these underwriters to inquire about opening an account and submitting a bid. You should be aware that, due to each underwriter s requirements for new customer accounts, you may not be able to open an account with a particular underwriter. Even if you are a customer of one of our underwriters, and even if you have obtained a bidder ID, you may not be permitted to submit a bid if the underwriter through which you wish to submit your bid determines that you do not meet such underwriter s suitability standards or that you are otherwise prohibited from participating in the offering due to regulatory requirements, such as the rules and regulations of the National Association of Securities Dealers.

We encourage you to discuss any questions regarding your bid and the suitability determinations that will be applied to your bid with the underwriter through which you expect to submit a bid. Each of our underwriters makes its own suitability determinations. This could affect your ability to submit a bid. For example, one of our underwriters may view a bid for 100 shares at $90.00 per share as suitable for an investor, while another of our underwriters could determine that such a bid is unsuitable for that same investor. If an underwriter determines that a bid is not suitable for an investor, the underwriter will not submit that bid in the auction, and you may not be informed that your bid was not submitted in the auction.

Our managing underwriters will manage the master order book, to which we will have concurrent access, that will aggregate all bids collected by our underwriters and will include the identity of the bidders. Our master order book will not be available for viewing by bidders. Neither we nor our underwriters will inform you that we have rejected your bids.

You should consider all the information in this prospectus in determining whether to submit a bid, the number of shares you seek to purchase and the price per share you are willing to pay. We, in consultation with our underwriters, will have the ability to reject bids that have the potential to manipulate or disrupt the bidding process. These bids include bids that we, in consultation with our underwriters, believe in our sole discretion do not reflect the number of shares that you actually intend to purchase, or a series of bids that we, in consultation with our underwriters, consider disruptive to the auction process.

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The shares offered by this prospectus may not be sold, nor may offers to buy be accepted, prior to the time that the registration statement filed with the SEC becomes effective. A bid received by any underwriter involves no obligation or commitment of any kind by the bidder until our underwriters have notified you that your bid is successful by sending you a notice of acceptance. Therefore, you will be able to withdraw a bid at any time until it has been accepted. You may withdraw your bid by contacting the underwriter through which you submitted your bid.

During the bidding process, we and our managing underwriters will monitor the master order book to evaluate the demand that exists for our initial public offering. Based on this information and other factors, we and our underwriters may revise the public offering price range for our initial public offering set forth on the cover of this prospectus. In addition, we and the selling stockholders may decide to change the number of shares of Class A common stock offered through this prospectus. It is very likely that the number of shares offered will increase if the price range increases. You should be aware that we have the ability to make multiple such revisions. These increases in the public offering price range or the number of shares offered through this prospectus may result in there being little or no demand for our shares of Class A common stock at or above the initial public offering price following this offering. Therefore, the price of our shares of Class A common stock could decline following this offering, and investors should not expect to be able to sell their shares for a profit shortly after trading begins. You should consider whether to modify or withdraw your bid as a result of developments during the auction process, including changes in the price range or number of shares offered.

Reconfirmations of Bids

We will require that bidders reconfirm the bids that they have submitted in the offering if either of the following events shall occur:

- More than 15 business days have elapsed since the bidder submitted his bid in the offering.
- There is a material change in the prospectus that requires recirculation of the prospectus by us and the underwriters.

If a reconfirmation of bids is required, we will send an electronic notice to everyone who received a bidder ID notifying them that they must reconfirm their bids by contacting the underwriters with which they have their brokerage accounts. If bidders do not reconfirm their bids when requested, we and the underwriters will disregard their bids in the auction, and they will be deemed to have been withdrawn.

Changes in the Price Range Prior to Effectiveness of the Registration Statement

If, prior to the date on which the SEC declares our registration statement effective, there is a change in the price range or the number of shares to be sold in our offering, in each case in a manner that is not otherwise material to our offering, we and the underwriters will:

- Provide notice on our offering web site of the revised price range or number of shares to be sold in our offering, as the case may be.
- Issue a press release announcing the revised price range or number of shares to be sold in our offering, as the case may be.

Send an electronic notice to everyone who received a bidder ID notifying them of the revised price range or number of shares to be sold in our offering, as the case may be.

In these situations, the underwriters could accept your bid after the SEC declares the registration statement effective without requiring you to reconfirm. However, the underwriters may decide at any time to require you to reconfirm your bid, and if you fail to do so, your bid will be invalid.

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The Auction Closing Process

We can close the auction at any time. You will have the ability to modify any bid until the auction is closed. You will have the ability to withdraw your bid until your bid is accepted. This will occur when and if you are sent a notice of acceptance. If you are requested to reconfirm a bid and fail to do so, your bid will be rejected.

When we submit our request that the SEC declare the registration statement effective, we and the underwriters will also send an electronic notice to everyone who received a bidder ID informing them of our request. Once the registration statement is effective, you will be sent an electronic notice informing you that the registration statement is effective. Bidders may still withdraw their bids after the underwriters send this notice of effectiveness. You should be aware that the following underwriters may require that you deposit funds or securities in your brokerage account with value sufficient to cover the aggregate dollar amount of your bid:

WR Hambrecht + Co.

Ameritrade

M.R. Beal & Company

E*TRADE Securities

Charles Schwab & Co.

Samuel A. Ramirez & Co.

Muriel Siebert & Co.

Utendahl Capital Group

Wells Fargo Securities

In the event these underwriters require you to make deposits, you will need to do so within 24 hours after the registration statement is declared effective. However, if the registration statement is declared effective on Friday, such funds will be due 72 hours after the registration statement is declared effective. If you submit a bid after effectiveness, you will be required to fund your account by the later of the deadline described above or the time you submit a bid.

If you do not provide the required funds or securities in your account within the required time, these underwriters may cancel your bid. However, we and our underwriters may decide to accept successful bids in as little as one hour after the SEC declares the registration statement effective regardless of whether bidders have deposited funds or securities in their brokerage accounts. In this case, as well as all other cases in which notices of acceptance have been sent, successful bidders would be obligated to purchase the shares allocated to them in the allocation process. For the remaining underwriters not listed above, you will be required to deposit funds in your brokerage account prior to settlement, which we expect to occur three or four business days after the underwriters send the notices of acceptance to successful bidders.

The Pricing Process

We expect that the bidding process will reveal a clearing price for the shares of Class A common stock offered in our auction. The clearing price is the highest price at which all of the shares offered (including shares subject to the underwriters over-allotment option) may be sold to potential investors, based on bids in the master order book that have not been withdrawn or rejected at the time we and our underwriters close the auction.

The initial public offering price will be determined by us and our underwriters after the auction closes. We intend to use the auction clearing price to determine the initial public offering price and, therefore, to set an initial public offering price that is equal to the clearing price. However, we and our underwriters have discretion to set the initial public offering price below the auction clearing price. We may do this in an effort to achieve a broader distribution of our Class A common stock or to potentially reduce the downward price volatility in the trading price of our shares in the period shortly following our offering relative to what would be experienced if the initial public offering price were set at the auction clearing price. We cannot assure you that setting the initial public offering price below the auction clearing price would achieve this result. In addition, although setting the initial public offering price below the clearing price may achieve a broader distribution of our shares, it may not result in allocations of shares in our offering to specific types of investors, such as professional investors. Even if the initial public offering price is set below the auction clearing price, the trading price of our Class A common stock could still drop significantly after the offering.

We caution you that our initial public offering price may have little or no relationship to the price that would be established using traditional indicators of value, such as:

- Our future prospects and those of our industry in general.
- Our sales, earnings and other financial and operating information.
- Multiples of our earnings, cash flows and other operating metrics.
- Market prices of securities and other financial and operating information of companies engaged in activities similar to ours.
- Research analyst views.

You should understand that the trading price of our Class A common stock could vary significantly from the initial public offering price. Therefore, we caution you not to submit a bid in the auction process for our offering unless you are willing to take the risk that our stock price could decline significantly.

The pricing of our initial public offering will occur after we have closed the auction and after the registration statement has been declared effective. We will issue a press release to announce the initial public offering price. The price will also be included in the notice of acceptance and the final prospectus will be sent to the purchasers of Class A common stock in our offering.

Acceptance of Bids

If the initial public offering price is at or above the bottom of the price range on the cover of the prospectus and no more than 20% above the top of the range, the underwriters can accept all bids at or above the initial public offering price by sending electronic notices of acceptance to successful bidders. As a result of the varying delivery times involved in sending emails over the Internet, some bidders may receive these notices of acceptance before others. In this case, the underwriters can accept your bid without reconfirmation.

If the initial public offering price is less than the bottom of the price range on the cover of the prospectus or more than 20% above the top of the range, we and the underwriters will:

Provide notice on our offering web site of the final offering price.

Issue a press release announcing the final offering price.

Send an electronic notice to everyone who received a bidder ID notifying them of the final offering price.

Under these circumstances, the underwriters would recirculate the prospectus and require the bidders to reconfirm their bids.

If reconfirmation is not required, the underwriters may accept successful bids by sending an electronic notice of acceptance in as little as one hour after we and the underwriters send the electronic notice of the final offering price and you will have the ability to withdraw your bid until it is accepted. You should be aware that the underwriters will accept successful bids by sending an electronic notice of acceptance, and bidders who submitted successful bids will be obligated to purchase the shares allocated to them regardless of (1) whether such bidders are aware that the registration statement has been declared effective or (2) whether they are aware that the electronic notice of acceptance of that bid has been sent. Once the underwriters have accepted a bid by sending out an electronic notice of acceptance, they will not cancel or reject this bid.

The Allocation Process

Once the initial public offering price has been determined, we and our underwriters will begin the allocation process. All investors who submitted successful bids will receive an allocation of shares in our offering. All shares will be sold at the initial public offering price. The allocation process will not give any preference to successful bids based on bid price.

If the initial public offering price is equal to the auction clearing price, all successful bidders will be offered share allocations that are equal or nearly equal to the number of shares represented by their successful bids. Therefore, we caution you against submitting a bid that does not accurately represent the number of shares of our Class A common stock that you are willing and prepared to purchase. If we, in consultation with our underwriters, believe in our sole discretion that your bid does not reflect the number of shares you actually intend to purchase, we may determine that your bid is manipulative or disruptive. If any of your bids are deemed manipulative or disruptive, all of the bids that you have submitted will be rejected, in which case you will not receive an allocation of shares in our initial public offering. Furthermore, neither we nor our underwriters will inform you that we have rejected your bids.

In the event that the number of shares represented by successful bids exceeds the number of shares we and the selling stockholders are offering, the offered shares will need to be allocated across the successful bidder group. We, in consultation with our underwriters, expect to use one of two methods to do so pro rata allocation or maximum share allocation. With either method, our objective is to set an initial public offering price where successful bidders receive at least 80% of the shares they successfully bid for in the auction. We do not intend to publicly disclose the allocation method that we ultimately employ. Once we choose an allocation method, we will not change it.

Pro Rata Allocation. With pro rata allocation, successful bidders will receive share allocations on a pro rata basis based on the following rules:

- The pro rata allocation percentage will be determined by dividing the number of shares we and the selling stockholders are offering (including shares subject to the underwriters over-allotment option) by the number of shares represented by successful bids.

- Each bidder who has a successful bid will be allocated a number of shares equal to the pro rata allocation percentage multiplied by the number of shares represented by the successful bid, rounded to the nearest whole number of shares.

The following simplified, hypothetical example illustrates how pro rata allocation might work in practice:

Assumptions	
Shares Offered	20,000
Total Shares Subject to Successful Bids	21,200
Pro Rata Allocation Percentage	94.34%

Successful Bidder	**Shares Represented by Successful Bid**	**Pro Rata Allocation**

A	100	94
B	2,100	1,981
C	4,000	3,774
D	4,500	4,245
E	5,000	4,717
F	5,500	5,189
Totals	21,200	20,000

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Maximum Share Allocation. With maximum share allocation, successful bidders will receive share allocations based on an algorithm. Under this method, successful bidders with smaller bid sizes would receive share allocations for their entire bid amounts, while successful bidders with larger bid sizes would receive no more than a maximum share allocation to be determined using the following algorithm:

The total of all share allocations must equal the total number of shares we and the selling stockholders are offering (including any shares subject to the over-allotment option).

Each successful bidder will receive a share allocation equal to the lesser of the number of shares represented by their successful bid and the maximum share allocation.

The maximum share allocation would be a number of shares that results in the full allocation of shares being offered.

The following simplified, hypothetical example illustrates how maximum share allocation might work in practice:

Assumptions	
Shares Offered	20,000
Total Shares Subject to Successful Bids	21,200
Maximum Share Allocation	4,650

Successful Bidder	**Shares Represented by Successful Bids**	**Share Allocation**
A	100	100
B	2,100	2,100
C	4,000	4,000
D	4,500	4,500
E	5,000	4,650
F	5,500	4,650
Totals	21,200	20,000

We may designate tiers of bidders for purposes of allocation. Although we will not be able to determine whether or how we would implement a tiered allocation structure until the closing of the auction, the tiers would not be a factor in establishing the initial public offering price or in determining the size of the offering. If we were to implement a tiered allocation structure, we would divide the successful bidders into segments, or tiers, and assign bidders to tiers based on the size of their bids. This would require us to determine how many shares to allocate to each tier. The portion of the total shares offered in our initial public offering that are allocated to a tier may be different from the portion of the total shares successfully bid for in our auction that were bid for by bidders in that tier. Following the assignment of shares to each tier, we would apply either the maximum share or pro rata allocation within each tier. Our objective is that, regardless of any tiering allocations that we may implement, no successful bidder will be allocated less than 80% of the shares he or she successfully bid for in the auction.

Following the allocation process, our underwriters will provide successful bidders with a final prospectus and confirmations that detail their purchases of shares of our Class A common stock and the purchase price. The final prospectus will be delivered electronically and confirmation will be delivered by regular mail, facsimile or email. Successful bidders can expect to receive their allocated shares in their brokerage accounts three or four business days after the final offering price is established by us and the underwriters.

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HOW TO PARTICIPATE IN THE AUCTION FOR OUR IPO

If you want to participate in the auction for our IPO, you will need to do the following:

1. Have or open a brokerage account at a brokerage firm affiliated with one of our underwriters listed on page 35 of this prospectus.

2. Understand that you should carefully review our entire prospectus. We also recommend that you view the Meet the Management presentation available at www.ipo.google.com.

3. Obtain a bidder ID. You will need to go to www.ipo.google.com and follow the directions for registering for a bidder ID. To obtain a bidder ID, you will have to:

   Provide personal information, including your tax identification number (usually your social security number) and a valid email address. If the email address you provide differs from the one you have on file with your brokerage firm, we suggest that you provide your brokerage firm with the email address you will use for this offering.

   Acknowledge that you have received an electronic copy of the preliminary prospectus.

   Consent to electronic delivery of communications related to the offering, including amendments to the prospectus.

   Accept the Privacy Policy and Terms of Use that are described on the web site.

   Receive a confirmation email from www.ipo.google.com and click on the link in the email to receive your bidder ID. You are not registered until you click on this link and obtain your bidder ID.

   You will not be able to receive a bidder ID once the auction begins.

4. Contact your brokerage firm to find out when the auction will open and to place a bid.

   Because each of the brokerage firms makes its own suitability determinations, we encourage you to discuss with your brokerage firm any questions that you have regarding their requirements because this could impact your ability to submit a bid. For example, while one of our underwriters may view a bid for 100 shares at $90.00 per share as suitable for an investor, another of our underwriters could determine that such a bid is unsuitable for that same investor and, therefore, not submit the bid in the auction.

5. If you choose to submit a bid, contact your brokerage firm while the auction is open.

   You may bid within, above or below the price range found on the cover of our preliminary prospectus.

Each bid must contain both the price per share you are willing to pay and the number of shares for which you are bidding.

The minimum size of any bid is generally five shares. However, the minimum size of any bid submitted through HARRISdirect, one of our underwriters, is 100 shares.

If you bid, only submit a bid for the number of shares you intend to purchase and the price per share you are willing to pay. If we, in consultation with our underwriters, determine that your bid is manipulative or disruptive, all of the bids that you have submitted will be rejected. You will not be informed if your bids are rejected.

Most of our underwriters will permit you to submit an unlimited number of bids. However, UBS Securities, Charles Schwab & Co. and Fidelity Capital Markets will permit bidders to submit only one bid per account. HARRISdirect will permit bidders to submit up to three bids per account. E*TRADE Securities will permit bidders to submit up to five bids per account; however, bidders submitting bids

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through E*TRADE Securities may not submit bids for more than an aggregate of 10,000 shares per account. Ameritrade will permit bidders to submit up to 30 bids per account.

You should understand that, if you submit more than one bid, all of your bids could be accepted. This means that you may be allocated shares for any or all of your bids that you have not withdrawn prior to their acceptance by the underwriters. You will be financially obligated for the total value of the shares allocated to you.

Do not submit bids that add up to more than the amount of money you want to invest in the IPO. This is a very important point. For example, suppose you want to invest, at most, $1,000 in our IPO. Let s assume that you place two bids: one bid for 11 shares at $90.00 (for a total value of $990) and another bid for 7 shares at $93.25 (for a total value of $652.75). If the IPO price were set at $89.25, the underwriters would accept all of your bids and you would be legally obligated to purchase 18 shares for $1,606.50.

6. Keep in contact with your brokerage firm, frequently monitor your email account and check www.ipo.google.com for notifications related to the offering, including:

Notice of Recirculation/Request for Reconfirmation. Notification that we have made material changes to the prospectus for this offering that require you to reconfirm your bid by contacting your brokerage firm.

Notice of Change in Price Range or Number of Shares Offered. Notification that we have changed the price range or size of the offering.

Notice of Intent to go Effective. Notification that we have asked the SEC to declare our registration statement effective.

Notice of Effectiveness. Notification that the SEC has declared our registration statement effective.

Notice of Auction Closing. Notification that the auction has closed.

Notice of Final Price. Notification of the initial public offering price, if the offering price is less than the bottom of the price range on the cover of the prospectus or more than 20% above the top of the range.

Notice of Acceptance. Notification as to whether any of your bids are successful and have been accepted by the underwriters. This notification will include the initial public offering price.

Please be careful only to trust emails relating to the auction that come from your brokerage firm or from www.ipo.google.com. Emails from us will not ask for any personal information (such as social security number or credit card numbers). If you are not sure whether to trust an email, please contact your brokerage firm directly.

7. You may submit, change or withdraw a bid at any time before the auction is closed. You may also withdraw a bid at any time (even after the auction is closed) until a notice of acceptance of that bid is sent to your email account. In all cases, contact your brokerage firm to change or withdraw a bid.

8.

Once our registration statement is effective, your brokerage firm may require that, within 24 hours following the effectiveness of the registration statement, you deposit funds or securities in your brokerage account with value sufficient to cover the aggregate dollar amount of your bid. If you do not provide the required funds or securities in your account within the required time, your bid may be rejected. However, we and our underwriters may determine to accept successful bids in as little as one hour after the SEC declares the registration statement effective regardless of whether bidders have deposited funds or securities in their brokerage accounts. In this case, as well as all other cases in which notices of acceptance have been sent, successful bidders would be obligated to purchase the shares allocated to them in the allocation process.

9. In certain circumstances, you may be required to reconfirm your bid. If this occurs, you should contact your brokerage firm. If you fail to reconfirm your bid when requested, your bid will no longer be valid.

10. If your bids have been accepted by the underwriters, you are bound to purchase all of the shares for which you have bid at or above the initial public offering price. Your brokerage firm will contact you with respect to your exact allocation.

For more information on the auction process, see Auction Process beginning on page 34 of this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds of $1,163.6 million from our sale of the 14,142,135 shares of Class A common stock offered by us in this offering, based upon our initial public offering price of $85.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any of the net proceeds from the sale of the shares by the selling stockholders.

The principal purposes of this offering are to obtain additional capital, to create a public market for our common stock and to facilitate our future access to the public equity markets.

We currently have no specific plans for the use of the net proceeds of this offering. We anticipate that we will use the net proceeds received by us from this offering for general corporate purposes, including working capital. In addition, we may use a portion of the proceeds of this offering for acquisitions of complementary businesses, technologies or other assets. We have no current agreements or commitments with respect to any material acquisitions.

Pending such uses, we plan to invest the net proceeds in highly liquid, investment grade securities.

DIVIDEND POLICY

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.

CASH AND CAPITALIZATION

The following table sets forth our cash, cash equivalents, short-term investments and capitalization at June 30, 2004, as follows:

On an actual basis, 162,856,233 shares of Class B common stock and 12,359,204 shares of Class A common stock are outstanding.

On a pro forma basis to reflect the conversion of all of our outstanding preferred stock into an aggregate of 79,099,884 shares of Class B common stock, which will occur prior to the completion of the offering.

On a pro forma as adjusted basis to give effect to receipt of the net proceeds from the sale by us in this offering of shares of Class A common stock at our initial public offering price of $85.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses.

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You should read this table in conjunction with Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this prospectus.

	At June 30, 2004		
	Actual	Pro Forma	Pro Forma As Adjusted
	(in thousands, except par value) (unaudited)		
Cash, cash equivalents and short-term investments	$ 548,687	$ 548,687	$ 1,712,255
Long-term liabilities	58,766	58,766	58,766
Stockholders equity:			
Convertible preferred stock, $0.001 par value, issuable in series: 164,782 shares authorized, 79,099 shares issued and outstanding, actual; 100,000 shares authorized, none issued and outstanding, pro forma and pro forma as adjusted	79,860		
Class A and B common stock, $0.001 par value: 700,000 shares authorized, 165,012 shares issued and outstanding, actual; 9,000,000 shares authorized, 244,111 shares issued and outstanding, pro forma and 258,254 shares pro forma as adjusted	165	244	258
Additional paid-in capital	956,882	1,036,663	2,200,217
Deferred stock-based compensation	(352,815)	(352,815)	(352,815)
Accumulated other comprehensive income	(1,481)	(1,481)	(1,481)
Retained earnings	334,388	334,388	334,388
Total stockholders equity	1,016,999	1,016,999	2,180,567
Total capitalization	$ 1,075,765	$ 1,075,765	$ 2,239,333

The table above excludes the following shares:

10,203,007 shares of Class A and Class B common stock subject to repurchase that were granted and exercised subsequent to March 21, 2002 (see Note 1 of Notes to Consolidated Financial Statements included as part of this prospectus).

1,996,140 shares of Class B common stock issuable upon the exercise of warrants outstanding at June 30, 2004, with a weighted average exercise price of $0.62 per share.

6,276,573 shares of Class A common stock issuable upon the exercise of options outstanding at June 30, 2004, at a weighted average exercise price of $9.42 per share.

10,456,084 shares of Class B common stock issuable upon the exercise of options outstanding at June 30, 2004, at a weighted average exercise price of $2.68 per share.

3,891,192 shares of common stock available for future issuance under our stock option plans at June 30, 2004.

2,700,000 shares of Class A common stock issued to Yahoo in connection with a settlement arrangement.

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DILUTION

If you invest in our Class A common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our Class A common stock and the pro forma as adjusted net tangible book value per share of our Class A and Class B common stock immediately after this offering. Pro forma net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of Class A and Class B common stock outstanding at June 30, 2004 after giving effect to the conversion of all of our preferred stock into Class B common stock, which will occur immediately prior to the completion of the offering.

Investors participating in this offering will incur immediate, substantial dilution. Our pro forma net tangible book value was $913.2 million, computed as total stockholders equity less goodwill and other intangible assets, or $3.55 per share of Class A and Class B common stock and preferred stock outstanding at June 30, 2004. Assuming the sale by us of shares of Class A common stock offered in this offering at our initial public offering price of $85.00 per share, and after deducting underwriting discounts and commissions and estimated offering expenses, our pro forma as adjusted net tangible book value at June 30, 2004, would have been $2,076.8 million, or $7.66 per share of common stock. This represents an immediate increase in pro forma net tangible book value of $4.11 per share of common stock to our existing stockholders and an immediate dilution of $77.34 per share to the new investors purchasing shares in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share of Class A common stock		$ 85.00
Pro forma net tangible book value per share at June 30, 2004	$ 3.55	
Increase in pro forma net tangible book value per share attributable to this offering	4.11	
Pro forma as adjusted net tangible book value per share after the offering		7.66
Dilution per share to new investors		$ 77.34

The following table sets forth on a pro forma as adjusted basis, at June 30, 2004, the number of shares of Class A common stock purchased or to be purchased from us, the total consideration paid or to be paid and the average price per share paid or to be paid by existing holders of common stock, by holders of options and warrants outstanding at June 30, 2004, and by the new investors, before deducting underwriting discounts and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
	(dollars in thousands, except per share amounts)				
Existing stockholders	257,077,508	94.8%	$ 89,523	6.9%	$ 0.35
New investors	14,142,135	5.2%	1,202,081	93.1%	$ 85.00
Total	271,219,643	100.0%	$ 1,291,604	100.0%	

The discussion and tables above are based on the number of shares of common stock and preferred stock outstanding at June 30, 2004.

The discussion and tables above includes 62,187 shares of Class B common stock issuable upon exercise of a warrant that will be exercised in connection with the offering and 2,700,000 shares of Class A common stock issued to Yahoo in connection with a settlement arrangement. The pro forma and pro forma as adjusted net tangible book values do not assume any change that will result from this settlement arrangement. Note 14 of Notes to Consolidated Financial Statements included as part of this prospectus provides a preliminary pro forma stockholders equity as if the settlement had occurred on December 31, 2003. The discussion and table below excludes the following shares:

1,933,953 shares of Class B common stock issuable upon the exercise of warrants outstanding, at June 30, 2004, at a weighted average exercise price of $0.62 per share.

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- 6,276,573 shares of Class A common stock issuable upon the exercise of options outstanding at June 30, 2004, at a weighted average exercise price of $9.42 per share.

- 10,456,084 shares of Class B common stock issuable upon the exercise of options outstanding at June 30, 2004, at a weighted average exercise price of $2.68 per share.

- 3,891,192 shares of common stock available for future issuance under our stock option plans at June 30, 2004.

To the extent outstanding options and warrants are exercised, new investors will experience further dilution.

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SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

The consolidated statements of operations data for the years ended December 31, 2001, 2002 and 2003, and the consolidated balance sheet data at December 31, 2002 and 2003, are derived from our audited consolidated financial statements appearing elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 1999 and December 31, 2000, and the consolidated balance sheet data at December 31, 1999, 2000 and 2001, are derived from our audited consolidated financial statements that are not included in this prospectus. The consolidated statements of operations data for the six months ended June 30, 2003 and 2004 and the consolidated balance sheet data at June 30, 2004 are derived from our unaudited consolidated financial statements included in this prospectus. The unaudited consolidated financial statements include, in the opinion of management, all adjustments that management considers necessary for the fair presentation of the financial information set forth in those statements. The historical results are not necessarily indicative of the results to be expected in any future period.

	Year Ended December 31,					Six Months Ended June 30,	
	1999	2000	2001	2002	2003	2003	2004
	(in thousands, except per share data)					(unaudited)	
Consolidated Statements of Operations Data:							
Revenues	$ 220	$ 19,108	$ 86,426	$ 439,508	$ 1,465,934	$ 559,817	$ 1,351,835
Costs and expenses:							
Cost of revenues	908	6,081	14,228	131,510	625,854	204,596	641,775
Research and development	2,930	10,516	16,500	31,748	91,228	29,997	80,781
Sales and marketing	1,677	10,385	20,076	43,849	120,328	42,589	104,681
General and administrative	1,221	4,357	12,275	24,300	56,699	22,562	47,083
Stock-based compensation(1)		2,506	12,383	21,635	229,361	70,583	151,234
Total costs and expenses	6,736	33,845	75,462	253,042	1,123,470	370,327	1,025,554
Income (loss) from operations	(6,516)	(14,737)	10,964	186,466	342,464	189,490	326,281
Interest income (expense) and other, net	440	47	(896)	(1,551)	4,190	719	(1,198)
Income (loss) before income taxes	(6,076)	(14,690)	10,068	184,915	346,654	190,209	325,083
Provision for income taxes			3,083	85,259	241,006	132,241	182,047
Net income (loss)	$ (6,076)	$ (14,690)	$ 6,985	$ 99,656	$ 105,648	$ 57,968	$ 143,036
Net income (loss) per share(2):							
Basic	$ (0.14)	$ (0.22)	$ 0.07	$ 0.86	$ 0.77	$ 0.44	$ 0.93
Diluted	$ (0.14)	$ (0.22)	$ 0.04	$ 0.45	$ 0.41	$ 0.23	$ 0.54
Number of shares used in per share calculations(2):							
Basic	42,445	67,032	94,523	115,242	137,697	131,525	153,263
Diluted	42,445	67,032	186,776	220,633	256,638	253,024	265,223

(1) Stock-based compensation, consisting of amortization of deferred stock-based compensation and the fair value of options issued to non-employees for services rendered, is allocated as follows:

Year Ended December 31,

	1999	2000	2001	2002	2003	Six Months Ended June 30, 2003	2004
				(in thousands)		(unaudited)	
Cost of revenues	$	$ 167	$ 876	$ 1,065	$ 8,557	$ 2,813	$ 7,622
Research and development		1,573	4,440	8,746	138,377	38,237	92,102
Sales and marketing		514	1,667	4,934	44,607	14,711	27,576
General and administrative		252	5,400	6,890	37,820	14,822	23,934
	$	$ 2,506	$ 12,383	$ 21,635	$ 229,361	$ 70,583	$ 151,234

(2) See Note 1 of Notes to Consolidated Financial Statements included in this prospectus for information regarding the computation of per share amounts.

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	At December 31,					At June 30,
	1999	2000	2001	2002	2003	2004
	(in thousands)					(unaudited)
Consolidated Balance Sheet Data:						
Cash, cash equivalents and short-term investments	$ 20,038	$ 19,101	$ 33,589	$ 146,331	$ 334,718	$ 548,687
Total assets	25,808	46,872	84,457	286,892	871,458	1,328,022
Total long-term liabilities	3,096	7,397	8,044	9,560	33,365	58,766
Redeemable convertible preferred stock warrant				13,871	13,871	
Deferred stock-based compensation		(8,457)	(15,833)	(35,401)	(369,668)	(352,815)
Total stockholders equity	20,009	27,234	50,152	173,953	588,770	1,016,999

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and the notes to those statements included elsewhere in this prospectus. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section entitled Risk Factors and elsewhere in this prospectus.

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.

We were incorporated in California in September 1998 and reincorporated in Delaware in August 2003. We began licensing our WebSearch product in the first quarter of 1999. We became profitable in 2001 following the launch of our Google AdWords program.

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, so that an advertiser pays us only when a user clicks on one of its ads. AdWords is also available through our direct sales force. Our AdWords agreements are generally terminable at any time by our advertisers. We recognize as revenue the fees charged advertisers each time a user clicks on one of the text-based ads that appear next to the search results on our web sites.

Effective January 1, 2004, we terminated the Premium Sponsorships program and now offer a single pricing structure to all of our advertisers based on the AdWords cost-per-click model. We do not expect that this change to one pricing structure will have a negative effect on our revenues because most of our advertisers switched to

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the AdWords cost-per-click model. Our AdWords cost-per-click program is the advertising program through which we generate revenues by serving ads on our web sites and on Google Network member web sites through our AdSense program.

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 our advertisers ads displayed on Google Network members web sites. In the past, 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 cost of revenue. 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. The standard agreements have uniform revenue share terms. The negotiated agreements vary as to revenue share terms and are heavily negotiated.

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 of searches initiated at our web sites or our Google Network members web sites.
- The relevance and quality of advertisements displayed with search results on our web sites and of Google Network members web sites, or with the content on our Google Network members web sites.
- The total number of advertisements displayed on our web sites and on web sites of Google Network members.
- The rate at which people click on advertisements.
- The number of advertisers.
- The total and per click advertising spending budgets of an advertiser.
- Our minimum fee per click, which is currently $0.05.
- The advertisers return on investment from advertising campaigns on our web sites or on the web sites of our Google Network members compared to other forms of advertising.

Advertising revenues made up 77%, 94%, 97% and 98% of our revenues in 2001, 2002, 2003 and in the six months ended June 30, 2004. 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.

Trends in Our Business

Our business has grown rapidly since inception, and we anticipate that our business will continue to grow. This growth has been characterized by substantially increased revenues. However, our revenue growth rate has declined, and we expect that it will continue to decline as a result of increasing competition and the inevitable decline in growth rates as our revenues increase to higher levels. In addition, steps we take to improve the relevance of the ads displayed, such as removing ads that generate low click-through rates, could negatively affect our near-term advertising revenues.

The operating margin we realize on revenues generated from the web sites of our Google Network members through our AdSense program is significantly lower than that generated from paid clicks on our web sites. This lower operating margin arises because most of the advertiser fees from our AdSense agreements are shared with our Google Network members, leaving only a portion of these fees for us. The growth in advertising revenues from our Google Network members web sites has historically exceeded that from our web sites. This has resulted in an increased portion of our revenue being derived from our Google Network members web sites and has had a negative impact on operating margins. 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 is likely to vary over time. For example, in the second quarter of 2004, growth in advertising revenues from our web sites exceeded that from our Google Network members web sites.

Our operating margin was greater in the six months ended June 30, 2004 compared to the year ended December 31, 2003. However we believe that our operating margin may decline in 2004 compared to 2003 as a result of an anticipated increase in costs and expenses, other than stock-based compensation, as a percentage of revenues. This decrease may be wholly or partially offset to the extent revenue growth from our Google web sites exceeds that of our Google Network members, as well as from an anticipated decrease in stock-based compensation as a percentage of net revenues in 2004 compared to 2003. The expected increase in cost and expenses, other than stock-based compensation, as a percentage of revenues is primarily a result of building the necessary employee and systems infrastructures required to manage our anticipated growth.

We have a large and diverse base of advertisers and Google Network members. No advertiser generated more than 3% of our revenues in 2001, and no more than 2% in 2002, 2003 or in the six months ended June 30, 2004. In addition, advertising and other revenues generated from one Google Network member, America Online, Inc., primarily through our AdSense programs, accounted for approximately 15%, 16% and 13% of our revenues in 2002, 2003 and in the six months ended June 30, 2004; no other Google Network members web sites generated advertising fees of more than 10% of our revenues. We expect our base of advertisers and Google Network members to remain large and diverse for the foreseeable future.

We have experienced and expect to continue to experience substantial growth in our operations as we seek to expand our user, advertiser and Google Network members bases and continue to expand our presence in international markets. This growth has required the continued expansion of our human resources and substantial investments in property and equipment. Our full-time employee headcount has grown from 284 at December 31, 2001, to 682 at December 31, 2002, to 1,628 at December 31, 2003 and to 2,292 at June 30, 2004. In addition, we have employed a significant number of temporary employees in the past and expect to continue to do so in the foreseeable future. Our capital expenditures have grown from $13.1 million in 2001, to $37.2 million in 2002, to $176.8 million in 2003 and to $182.3 million in the six months ended June 30, 2004. We currently expect to spend at least $300 million on capital equipment, including information technology infrastructure, to manage our operations during 2004. In addition, we anticipate that the growth rate of our costs and expenses, other than stock-based compensation, may exceed the growth rate of our revenues during 2004. Management of this growth will continue to require the devotion of significant employee and other resources. We may not be able to manage this growth effectively.

In early 2003, we decided to invest significant resources to begin the process of comprehensively documenting and analyzing our system of internal controls. We have identified areas of our internal controls requiring improvement, and we are in the process of designing enhanced processes and controls to address any issues identified through this review. Areas for improvement include streamlining our domestic and international billing processes, further limiting internal access to certain data systems and continuing to improve coordination across business functions. During our 2002 audit, our external auditors brought to our attention a need to increase

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restrictions on employee access to our advertising system and automate more of our financial processes. The auditors identified these issues together as a reportable condition, which means that these were matters that in the auditors judgment could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in our financial statements. In 2003, we devoted significant resources to remediate and improve our internal controls. Although we believe that these efforts have strengthened our internal controls and addressed the concerns that gave rise to the reportable condition in 2002, we are continuing to work to improve our internal controls, including in the areas of access and security. We plan to continue to invest the resources necessary to ensure the effectiveness of our internal controls and procedures, including in the areas of access and security.

The portion of our revenues derived from international markets has increased. Our international revenues have grown as a percentage of our total revenues from 22% in 2002 to 29% in 2003, and have grown from 28% in the six months ended June 30, 2003 to 31% in the six months ended June 30, 2004. This increase in the portion of our revenues derived from international markets results largely from increased acceptance of our advertising programs in international markets, an increase in our direct sales resources in international markets and services as well as customer support operations and our continued progress in developing versions of our products tailored for these markets.

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:

	Year Ended December 31,			Three Months Ended		Six Months Ended June 30,	
	2001	**2002**	**2003**	**March 31, 2004**	**June 30, 2004**	**2003**	**2004**
					(unaudited)		
Consolidated Statements of Income Data:							
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:							
Cost of revenues	16.5	29.9	42.7	48.4	46.6	36.5	47.5
Research and development	19.1	7.2	6.2	5.4	6.5	5.4	6.0
Sales and marketing	23.2	10.0	8.2	7.4	8.1	7.6	7.7
General and administrative	14.2	5.5	3.9	3.3	3.7	4.0	3.5
Stock-based compensation	14.3	4.9	15.6	11.7	10.7	12.6	11.2
Total costs and expenses	87.3	57.5	76.6	76.2	75.6	66.1	75.9
Income from operations	12.7	42.5	23.4	23.8	24.4	33.9	24.1
Interest income (expense) and other, net	(1.0)	(0.4)	0.2	0.1	(0.2)	0.1	(0.1)
Income before income taxes	11.7	42.1	23.6	23.9	24.2	34.0	24.0
Provision for income taxes	3.6	19.4	16.4	14.1	12.9	23.6	13.4

Net income	8.1%	22.7%	7.2%	9.8%	11.3%	10.4%	10.6%

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Revenues

The following table presents our revenues, by revenue source, for the periods presented:

	Year Ended December 31,			Three Months Ended		Six Months Ended	
				March 31,	June 30,	June 30,	
	2001	2002	2003	2004	2004	2003	2004
				(unaudited)			
	(dollars in thousands)						
Advertising revenues:							
Google web sites	$ 66,932	$ 306,978	$ 792,063	$ 303,532	$ 343,442	$ 341,002	$ 646,974
Google Network web sites		103,937	628,600	333,752	346,226	198,801	679,978
Total advertising revenues	66,932	410,915	1,420,663	637,284	689,668	539,803	1,326,952
Licensing and other revenues	19,494	28,593	45,271	14,339	10,544	20,014	24,883
Revenues	$ 86,426	$ 439,508	$ 1,465,934	$ 651,623	$ 700,212	$ 559,817	$ 1,351,835

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

	Year Ended December 31,			Three Months Ended		Six Months Ended	
				March 31,	June 30,	June 30,	
	2001	2002	2003	2004	2004	2003	2004
				(unaudited)			
Advertising revenues:							
Google web sites	77%	70%	54%	47%	49%	61%	48%
Google Network web sites		24	43	51	49	35	50
Total advertising revenues	77	94	97	98	98	96	98
Google web sites as % of advertising revenues	*100*	*75*	*56*	*48*	*50*	*63*	*49*
Google Network web sites as % of advertising revenues		*25*	*44*	*52*	*50*	*37*	*51*
Licensing and other revenues	23%	6%	3%	2%	2%	4%	2%

Growth in our revenues from 2002 to 2003, and from the three months ended March 31, 2004 to the three months ended June 30, 2004, resulted primarily from growth in advertising revenues from ads on our Google Network members web sites and growth in revenues from ads on our web sites. The advertising revenue growth resulted primarily from increases in the total number of paid clicks and advertisements displayed through our programs, rather than from changes in the fees charged. Revenue growth was driven to a lesser extent by our introduction late in the first quarter of 2003 of AdSense for content. Growth in our revenues from the six months ended June 30, 2003 compared to the six months ended June 30, 2004 resulted primarily from growth in advertising revenues from ads on our Google Network members web sites and growth in revenues from ads on our web sites. This increase was the result of increases in the number of paid clicks rather than from changes in the fees charged. The increase in the number of paid clicks was due to an increase in the number of Google Network members and aggregate traffic at their web sites and on our web sites. Our revenues grew by 27.2% from the three month period ended December 31, 2003 to the three month period ended March 31, 2004, but grew by only 7.5% for the three month period ended March 31, 2004 to the three month period ended June 30, 2004. The reasons for the decline in growth in revenues are described in the following paragraphs.

Growth in advertising revenues from our Google Network members web sites from the three months ended March 31, 2004 to the three months ended June 30, 2004 was $12.5 million or 3.7%, compared to $78.4 million or 30.7% from the three months ended December 31, 2003 to the three months ended March 31, 2004. This decrease in the growth rate was the result of slower growth in the number of page views and search queries, and ultimately paid clicks, on our Google Network member web sites due to seasonality. In addition, we entered into no new significant AdSense for search arrangements in the three months ended June 30, 2004.

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Growth in advertising revenues from our web sites from the three months ended March 31, 2004 to the three months ended June 30, 2004 was $39.9 million or 13.2% compared to $59.7 million or 24.5% from the three months ended December 31, 2003 to the three months ended March 31, 2004 due to seasonality.

Licensing and other revenues decreased by $3.8 million from the three months ended March 31, 2004 to the three months ended June 30, 2004 primarily as a result of fewer search queries served by us on Yahoo s web sites and fewer search queries on certain licensee web sites due to seasonality.

Growth in our revenues from 2001 to 2002 resulted primarily from growth in advertising revenues from ads on our web sites. The growth in advertising revenues resulted primarily from increases in the total number of paid clicks under our cost-per-click programs and the total number of advertisements displayed through our cost-per-displayed ad programs, rather than from changes in the fees charged. The revenue growth was driven in part by our introduction of our cost-per-click revenue model in the early part of 2002, which contributed to a significant increase in the number of our advertisers and by our introduction of AdSense for search in the first quarter of 2002.

We believe the increases in revenues described above were the result of the relevance and quality of both the search results and advertisements displayed, which resulted in more searches, advertisers and Google Network members, and ultimately more paid clicks.

Revenues by Geography

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

	Year Ended December 31,			Three Months Ended		Six Months Ended	
				March 31,	June 30,	June 30,	
	2001	2002	2003	2004	2004	2003	2004
					(unaudited)		
United States	82%	78%	71%	69%	69%	72%	69%
International	18%	22%	29%	31%	31%	28%	31%

The growth in international revenues is the result of our efforts to provide search results to international users and deliver more ads from non-U.S. advertisers. We expect that international revenues will continue to grow as a percentage of our total revenues during 2004 and in future periods. While international revenues accounted for approximately 29% of our total revenues in 2003 and 31% in the six months ended June 30, 2004, more than half of our user traffic came from outside the U.S. See Note 12 of Notes to Consolidated Financial Statements included as part of this prospectus 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 payments made to our Google Network members. These payments are primarily based on revenue share arrangements under which we pay our Google Network members most of the fees we receive from our advertisers whose ads we place on those Google Network member sites. 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 our 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. In addition, concurrent with the commencement of certain AdSense agreements we have purchased certain items from, or provided other consideration to, our Google Network members. These amounts are amortized on a pro-rata basis over the related term of the agreement.

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

	Year Ended December 31,			Three Months Ended		Six Months Ended	
	2001	2002	2003	March 31, 2004	June 30, 2004	June 30, 2003	June 30, 2004
		(unaudited)		(unaudited)		(unaudited)	
Traffic acquisition costs		$ 94.5	$ 526.5	$ 271.0	$ 277.0	$ 166.7	$ 548.0
Traffic acquisition costs as a percentage of advertising revenues from Google Network web sites		91%	84%	81%	80%	84%	81%
Traffic acquisition costs as a percentage of advertising revenues		23%	37%	43%	40%	31%	41%

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

Cost of revenues increased by $11.0 million to $326.4 million (or 46.6% of revenues) in the three months ended June 30, 2004, from $315.4 million (or 48.4% of revenues) in the three months ended March 31, 2004. This increase in dollars was primarily the result of additional traffic acquisition costs and the depreciation of additional information technology assets purchased in the current and prior periods and additional data center costs required to manage more Internet traffic, advertising transactions and new products and services. There was an increase in traffic acquisition costs of $6.0 million and an increase in data center costs of $4.9 million primarily resulting from the depreciation of additional information technology assets purchased in the current and prior periods.

Cost of revenues increased by $437.2 million to $641.8 million (or 47.5% of revenues) in the six months ended June 30, 2004, from $204.6 million (or 36.5% of revenues) in the six months ended June 30, 2003. This increase was primarily the result of additional traffic acquisition costs and the depreciation of additional information technology assets purchased in the current and prior periods and additional data center costs required to manage more Internet traffic, advertising transactions and new products and services. There was an increase in traffic acquisition costs of $381.3 million and in data center costs of $39.6 million primarily resulting from the depreciation of additional information technology assets purchased in the current and prior periods. In addition, there was an increase in credit card and other transaction processing fees of $13.1 million resulting from more advertiser fees generated through AdWords.

Cost of revenues increased by $494.4 million to $625.9 million (or 42.7% of revenues) in 2003, from $131.5 million (or 29.9% of revenues) in 2002. This increase was primarily the result of increased traffic acquisition costs and additional data center costs required to manage more Internet traffic, advertising transactions and new products and services. Traffic acquisition costs increased $432.0 million due to an increase in the number of paid clicks on our Google Network members web sites. There was an increase in data center costs of $39.9 million primarily resulting from depreciation of additional information technology assets purchased in current and prior periods. In addition, there was an increase of $15.7 million in credit card and other transaction processing fees and an increase of $4.9 million related to amortization of developed technology resulting from acquisitions in 2003.

Cost of revenues increased by $117.3 million to $131.5 million (or 29.9% of revenues) in 2002, from $14.2 million (or 16.5% of revenues) in 2001. This increase was primarily the result of traffic acquisition costs and additional data center costs required to manage more Internet traffic, advertising transactions and new products and services. Traffic acquisition costs related to AdSense first introduced in 2002 totaled $94.5 million.

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There was an increase in data center costs of $15.3 million primarily resulting from depreciation of additional information technology assets purchased in current and prior periods. In addition, there was an increase in credit card and other transactional processing fees of $6.7 million.

In each period to date, the aggregate fees we have earned under our AdSense agreements have exceeded the aggregate amounts we have been obligated to pay our Google Network members. However, individual agreements have resulted in guaranteed minimum and other payments to Google Network members in excess of the related fees we receive from advertisers. In 2003 and in the six months ended June 30, 2004, we made guaranteed minimum and other payments of $22.5 million and $18.2 million in excess of the related fees we received from our advertisers.

We expect cost of revenues to increase in dollars and as a percentage of revenues in 2004 compared to 2003 primarily as a result of forecasted increases in traffic acquisition costs, and in our data center costs required to manage increased traffic, advertising transactions and new products and services. Also, increasing competition for arrangements with web sites that are potential Google Network members could result in our entering into more AdSense agreements under which guaranteed payments to Google Network members exceed the fees we receive from advertisers.

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 $10.8 million to $45.8 million (or 6.5% of revenues) in the three months ended June 30, 2004, from $35.0 million (or 5.4% of revenues) in the three months ended March 31, 2004. This increase was primarily due to an increase in labor and facilities related costs of $7.2 million as a result of an 18% increase in research and development headcount. In addition, depreciation and related expenses increased by $2.3 million primarily as a result of additional information technology assets purchased over the six months ended June 30, 2004.

Research and development expenses increased by $50.8 million to $80.8 million (or 6.0% of revenues) in the six months ended June 30, 2004, from $30.0 million (or 5.4% of revenues) in the six months ended June 30, 2003. This increase was primarily due to an increase in labor and facilities related costs of $35.3 million as a result of a 100% increase in research and development headcount. The increase in headcount was a result of the rapid growth of our business between these periods. In addition, depreciation and related expenses increased by $13.7 million primarily as a result of additional information technology assets purchased over the eighteen-month period ended June 30, 2004.

Research and development expenses increased by $59.5 million to $91.2 million (or 6.2% of revenues) in 2003, from $31.7 million (or 7.2% of revenues) in 2002. This increase in dollars was primarily due to an increase in labor and facilities related costs of $34.3 million as a result of a 101% increase in research and development headcount. In addition, we recognized $11.6 million of in-process research and development expenses during 2003 as a result of an acquisition. Note 4 of Notes to Consolidated Financial Statements included as part of this prospectus describes further purchased in-process research and development expenses and other acquisitions.

Research and development expenses increased by $15.2 million to $31.7 million (or 7.2% of revenues) in 2002, from $16.5 million (or 19.1% of revenues) in 2001. This increase was primarily due to an increase in labor and facilities related costs of $13.2 million, principally as a result of an 83% increase in research and development headcount.

We anticipate that research and development expenses will increase in dollar amount and may increase as a percentage of revenues in 2004 and future periods because we expect to hire more research and development personnel and build the infrastructure required to support the development of new, and improve existing, products and services.

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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 advertising and promotional expenditures.

Sales and marketing expenses increased $8.9 million to $56.8 million (or 8.1% of revenues) in the three months ended June 30, 2004, from $47.9 million (or 7.4% of revenues) in the three months ended March 31, 2004. This increase was primarily due to an increase in labor and facilities related costs of $5.5 million mostly as a result of a 19% increase in sales and marketing headcount. In addition, advertising and promotional expenses increased $3.8 million. The increase in sales and marketing personnel and advertising and promotional expenses was a result of our on-going efforts to secure new and to provide support to our existing users, advertisers and Google Network members, on a worldwide basis.

Sales and marketing expenses increased $62.1 million to $104.7 million (or 7.7% of revenues) in the six months ended June 30, 2004, from $42.6 million (or 7.6% of revenues) in the six months ended June 30, 2003. This increase was primarily due to an increase in labor and facilities related costs of $42.9 million mostly as a result of a 100% increase in sales and marketing headcount. In addition, advertising and promotional expenses increased $10.9 million and travel-related expenses increased $1.9 million. The increase in sales and marketing personnel and advertising, promotional and travel-related expenses was a result of our on-going efforts to secure new, and to provide support to our existing, users, advertisers and Google Network members, on a worldwide basis.

Sales and marketing expenses increased $76.5 million to $120.3 million (or 8.2% of revenues) in 2003, from $43.8 million (or 10.0% of revenues) in 2002. This increase in dollars was primarily due to an increase in labor and facilities related costs of $54.4 million mostly as a result of a 149% increase in sales and marketing headcount. In addition, advertising and promotional expenses increased $12.9 million and travel related expenses increased $3.2 million, primarily in the second half of 2003. The increase in sales and marketing personnel and advertising, promotional and travel-related expenses was a result of our on-going efforts to secure new, and to provide support to our existing, advertisers and Google Network members, on a worldwide basis. For instance, we have hired personnel to help our advertisers maximize their return on investment through the selection of appropriate keywords and have promoted the distribution of the Google Toolbar to Internet users in order to make our search services easier to access.

Sales and marketing expenses increased $23.7 million to $43.8 million (or 10.0% of revenues) in 2002, from $20.1 million (or 23.2% of revenues) in 2001. This increase in dollars was primarily due to increases in labor and facilities related costs of $19.5 million, primarily as a result of a 202% increase in headcount. Also, advertising and promotional expenses increased $1.7 million and travel related expenses increased $1.3 million.

We anticipate sales and marketing expenses will increase in dollar amount and may increase as a percentage of revenues in 2004 and future periods as we continue to expand our business on a worldwide basis. A significant portion of these increases relate to our plan to add support personnel to increase the level of service we provide to our advertisers and Google Network members.

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 and information technology consulting. To date, we have not experienced any significant amount of bad debts.

General and administrative expenses increased $4.1 million to $25.6 million (or 3.7% of revenues) in the three months ended June 30, 2004, from $21.5 million (or 3.3% of revenues) in the three months ended March 31, 2004. This increase was primarily due to an increase in labor and facilities related costs of $1.2 million, primarily as a result of a 27% increase in headcount, and an increase in professional services fees of $2.0 million. The additional personnel and professional services fees are the result of the growth of our business.

General and administrative expenses increased $24.5 million to $47.1 million (or 3.5% of revenues) in the six months ended June 30, 2004, from $22.6 million (or 4.0% of revenues) in the six months ended June 30, 2003. This increase in dollars was primarily due to an increase in labor and facilities related costs of $12.8 million, primarily as a result of a 93% increase in headcount, and an increase in professional services fees of $7.0 million. The additional personnel and professional services fees are the result of the growth of our business.

General and administrative expenses increased $32.4 million to $56.7 million (or 3.9% of revenues) in 2003, from $24.3 million (or 5.5% of revenues) in 2002. This increase in dollars was primarily due to an increase in labor and facilities related costs of $16.7 million, primarily as a result of a 194% increase in headcount, and an increase in professional services fees of $10.0 million, primarily in the second half of 2003. The additional personnel and professional services fees are the result of the growth of our business.

General and administrative expenses increased $12.0 million to $24.3 million (or 5.5% of revenues) in 2002, from $12.3 million (or 14.2% of revenues) in 2001. This increase in dollars was primarily due to an increase in labor and facilities related costs of $7.8 million, mostly as a result of a 96% increase in headcount and an increase in professional services fees of $3.9 million. The additional personnel and professional services fees 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 2004 and in future periods.

Stock-Based Compensation. We have granted stock options at exercise prices equal to 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 have applied hindsight within each year to arrive at reassessed values for the shares underlying our options. We recorded the difference between the exercise price of an option awarded to an employee and the reassessed value of the underlying shares on the date of grant as deferred stock-based compensation. The determination of the reassessed value of stock underlying options is discussed in detail below in Critical Accounting Policies and Estimates Stock-Based Compensation. We recognize compensation expense as we amortize the deferred stock-based compensation amounts on an accelerated basis over the related vesting periods, generally four or five years. In addition, we have awarded options to non-employees to purchase our common stock. Stock-based compensation related to non-employees is measured on a fair-value basis using the Black-Scholes valuation model as the options are earned.

Stock-based compensation in the three months ended June 30, 2004 decreased $1.7 million to $74.8 million (or 10.7% of revenues) from $76.5 million (or 11.7% of revenues) in the three months ended March 31, 2004. The decrease was primarily due to a decrease of $3.9 million of stock-based compensation related to the modification of terms of former employees stock option agreements and a decrease in the level of stock option grants in the three months ended June 30, 2004, and smaller differences between the exercise prices and the reassessed values of the underlying common stock on the dates of grant, partially offset by the amortization of deferred stock-based compensation amounts from prior periods recognized in the current period.

Stock-based compensation in the six months ended June 30, 2004 increased $80.6 million to $151.2 million (or 11.2% of revenues) from $70.6 million (or 12.6% of revenues) in the six months ended June 30, 2003. The increase in dollars was primarily driven by the larger differences between the exercise prices and the reassessed values of the underlying common stock on the dates of grant, partially offset by a decrease in the level of stock option grants, in recent periods. The increase was also driven by the recognition of $3.9 million of stock-based compensation related to the modification of terms of former employees stock option agreements in the three months ended March 31, 2004. No such modifications were made in the three months ended March 31, 2003.

Stock-based compensation increased $207.8 million to $229.4 million (or 15.6% of revenues) in 2003 from $21.6 million (or 4.9% of revenues) in 2002. The increase was primarily driven by the the larger differences

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between the exercise prices and the reassessed values of the underlying common stock on the dates of grant and, to a lesser extent, an increase in the level of stock option grants in 2003. Stock-based compensation increased $9.2 million to $21.6 million (or 4.9% of revenues) in 2002 from $12.4 million (or 14.3% of revenues) in 2001. The increase in dollars was primarily driven by the larger differences between the exercise prices and the reassessed values of the underlying common stock on the dates of grant, partially offset by a decrease in the level of stock option grants in 2002.

We expect stock-based compensation to be $117.2 million for the remaining six months of 2004, $137.7 million in 2005, $66.9 million in 2006, $24.1 million in 2007, $5.2 million in 2008 and $1.7 million thereafter, related to the deferred stock-based compensation on the balance sheet at June 30, 2004. These amounts do not include stock-based compensation related to options granted to non-employees and any options granted to employees and directors subsequent to June 30, 2004 at exercise prices less than the reassessed value on the date of grant and any additional compensation expense that may be required as a result of any changes in the stock option accounting rules. These amounts also assume the continued employment throughout the referenced periods of the recipient of the options that gave rise to the deferred stock-based compensation.

At December 31, 2003, there were 500,150 unvested options held by non-employees with a weighted average exercise price of $0.69, a weighted average 48-month remaining vesting period and a weighted average 4-year remaining expected life. The options generally vest on a monthly and ratable basis subsequent to December 31, 2003. Depending on the fair market value of these options on their vesting dates, which will depend in significant part on the then current trading price of our Class A common stock, the related charge could be significant during 2004 and subsequent periods. We recognized $5.4 million of stock-based compensation related to these options that vest over time in the six months ended June 30, 2004. No options that vest over time were granted to non-employees in the six months ended June 30, 2004.

Interest Income (Expense) and Other, Net

Interest income (expense) and other of $1.2 million of expense in the six months ended June 30, 2004 was primarily the result of $3.4 million of foreign exchange losses from net receivables denominated in currencies other than U.S. dollars as a result of generally weakening foreign currencies against the U.S. dollar during the six months ended June 30, 2004, and approximately $500,000 of interest expense incurred on equipment leases, including the amortization of the fair value of warrants issued to lenders in prior years. This was partially offset by $2.7 million of interest income and realized gains earned on cash, cash equivalents and short-term investments balances.

Interest income (expense) and other of $700,000 in the six months ended June 30, 2003 was primarily the result of approximately $1.2 million of interest income earned on cash, cash equivalents and short-term investments balances and approximately $700,000 of net foreign exchange gains from net receivables denominated in currencies other than U.S. dollars as a result of generally strengthening foreign currencies against the U.S. dollar during the six months ended June 30, 2003. These income sources were partially offset by approximately $1.0 million of interest expense incurred on equipment loans and leases, including the amortization of the fair value of warrants issued to lenders in prior years, and approximately $200,000 of losses incurred on the disposal of certain assets.

Interest income (expense) and other of $4.2 million in 2003 was primarily the result of $2.7 million of interest income earned on cash, cash equivalents and short-term investments balances, and $2.1 million of net foreign exchange gains from net receivables denominated in currencies other than U.S. dollars as a result of generally strengthening foreign currencies against the U.S. dollar throughout 2003. In addition, we recognized $1.4 million of other income in 2003, primarily related to a gain recorded for certain upfront fees paid by advertisers whose ads were not delivered during the related contract periods. These income sources were partially offset by $1.9 million of interest expense incurred on equipment loans and leases, including the amortization of the fair value of warrants issued to lenders in prior years.

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Interest income (expense) and other of $900,000 of expense and $1.6 million of expense in 2001 and 2002 was primarily the result of interest expense incurred on equipment loans and leases, including the amortization of the fair value of warrants issued to lenders, partially offset by interest income on cash, cash equivalents and short-term investments balances.

Provision for Income Taxes

Our provision for income taxes decreased to $90.4 million or an effective tax rate of 53% in the three months ended June 30, 2004, from $91.7 million, or an effective tax rate of 59% in the three months ended March 31, 2004. In addition, our provision for income taxes increased to $182.0 million, or an effective tax rate of 56% in the six months ended June 30, 2004 from $132.2 million, or an effective tax rate of 70%, in the six months ended June 30, 2003. The decrease in our effective tax rate in the three months ended June 30, 2004 compared to the three months ended March 31, 2004 was primarily due to a decrease in forecasted stock-based compensation expense as a percentage of income before income taxes in 2004. Our provision for income taxes increased to $241.0 million or an effective tax rate of 70% during 2003, from $85.3 million or an effective tax rate of 46% during 2002, and from $3.1 million or an effective tax rate of 31% during 2001. The increases in provision for income taxes primarily resulted from increases in Federal and state income taxes, driven by higher taxable income year over year. Our effective tax rate is our provision for income taxes expressed as a percentage of our income before income taxes. Our effective tax rate is higher than the statutory rate because, in arriving at income before income taxes, we include in our costs and expenses significant non-cash expenses related to stock-based compensation, which are recognized for financial reporting purposes, but are not deductible for income tax purposes. The increases in our effective tax rates over each of 2001, 2002 and 2003 were primarily the result of an increase in stock-based compensation amounts.

We expect our effective tax rate to decrease in 2004, primarily as a result of an expected decrease in stock-based compensation charges as a percentage of pre-tax income in 2004 compared to 2003. Furthermore, once there is a public market for our stock, we may reduce our tax provision based on benefits we may realize upon exercise of certain options outstanding. Any such reduction would lower our effective tax rate.

A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in Note 11 of Notes to Consolidated Financial Statements included in this prospectus.

Settlement of Disputes with Yahoo

On August 9, 2004, we and Yahoo entered into a settlement agreement resolving two disputes that had been pending between us. The first dispute concerned a lawsuit filed by Yahoo s wholly-owned subsidiary, Overture Services, Inc., against us in April 2002 asserting that certain services infringed Overture s U.S. Patent No. 6,269,361. In our court filings, we denied that we infringed the patent and alleged that the patent was invalid and unenforceable.

The second dispute concerned a warrant held by Yahoo to purchase 3,719,056 shares of our stock in connection with a June 2000 services agreement. Pursuant to a conversion provision in the warrant, in June 2003 we issued 1,229,944 shares to Yahoo. Yahoo contended it was entitled to a greater number of shares, while we contended that we had fully complied with the terms of the warrant.

As part of the settlement, Overture will dismiss its patent lawsuit against us and has granted us a fully-paid, perpetual license to the patent that was the subject of the lawsuit and several related patent applications held by Overture. The parties also mutually released any claims against each other concerning the warrant dispute. In connection with the settlement of these two disputes, we issued to Yahoo 2,700,000 shares of Class A common stock.

We will incur a non-cash charge in the third quarter of 2004 related to this settlement. Based on a per share value of the settlement consideration equal to the price of our initial public offering, we preliminarily estimate that this non-cash charge will be between $185 million and $205 million in the three months ending

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September 30, 2004. The non-cash charge will include, among other items, the value of shares associated with the settlement of the warrant dispute. The non-cash charge associated with these shares is required because they are being issued after the warrant was converted. We will also realize an income tax benefit in the third quarter, based on preliminary estimates, of between $70 million and $80 million related to this non-cash charge. The charge will result in a net loss for us in the three months ending September 30, 2004. We anticipate that we will capitalize various intangible assets obtained in this settlement and that these amounts will be amortized ratably over their useful lives, preliminarily expected to be between one and five years. The issuance of 2,700,000 shares represents approximately one percent of the number of shares currently expected to be used in the diluted per share calculation for the three and nine months ending September 30, 2004 and for the year ending December 31, 2004. The foregoing estimates of the amounts to be expensed, the associated tax benefit and the periods over which the capitalized assets will be amortized, are preliminary. As a result, they are subject to further review and may change materially. We will also engage a third party valuation consultant to assist management in the allocation of the settlement amount and the determination of the useful lives of the capitalized assets and expect to complete these analyses during the third quarter of 2004.

Quarterly Results of Operations

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

The following table presents our unaudited quarterly results of operations for the ten quarters ended June 2004. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair presentation of our financial position and operating results for the quarters presented. We believe that we experience increased levels of Internet traffic focused on commercial transactions in the fourth quarter and decreased levels of Internet traffic in the summer months. Prior to the second quarter of 2004, these seasonal trends may have been masked by the substantial quarter over quarter growth in our revenues.

	Quarter Ended									
	Mar 31, 2002	Jun 30, 2002	Sep 30, 2002	Dec 31, 2002	Mar 31, 2003	Jun 30, 2003	Sep 30, 2003	Dec 31, 2003	Mar 31, 2004	Jun 30, 2004
	(in thousands, except per share amounts) (unaudited)									
Consolidated Statements of Income Data:										
Revenues	$ 42,285	$ 78,525	$ 130,787	$ 187,911	$ 248,618	$ 311,199	$ 393,942	$ 512,175	$ 651,623	$ 700,212
Costs and expenses:										
Cost of revenues	5,692	20,407	39,622	65,789	87,195	117,401	170,390	250,868	315,398	326,377
Research and development(1)	6,183	6,457	9,053	10,055	12,505	17,492	32,774	28,457	35,019	45,762
Sales and marketing	7,294	11,176	11,704	13,675	17,767	24,822	36,575	41,164	47,904	56,777
General and administrative	4,135	5,653	7,313	7,199	10,027	12,535	13,853	20,284	21,506	25,577
Stock-based compensation(2)	3,774	3,735	6,182	7,944	36,418	34,165	73,794	84,984	76,473	74,761
Total costs and expenses	27,078	47,428	73,874	104,662	163,912	206,415	327,386	425,757	496,300	529,254
Income from operations	15,207	31,097	56,913	83,249	84,706	104,784	66,556	86,418	155,323	170,958
Interest income, expense and other, net	(501)	(310)	(677)	(63)	(47)	766	464	3,007	300	(1,498)
Income before income taxes	14,706	30,787	56,236	83,186	84,659	105,550	67,020	89,425	155,623	169,460

Provision for income taxes	6,780	14,194	25,929	38,356	58,859	73,382	46,594	62,171	91,650	90,397
Net income	$ 7,926	$ 16,593	$ 30,307	$ 44,830	$ 25,800	$ 32,168	$ 20,426	$ 27,254	$ 63,973	$ 79,063
Net income per share:										
Basic	$ 0.07	$ 0.15	$ 0.26	$ 0.37	$ 0.20	$ 0.24	$ 0.14	$ 0.19	$ 0.42	$ 0.51
Diluted	$ 0.04	$ 0.08	$ 0.13	$ 0.19	$ 0.10	$ 0.12	$ 0.08	$ 0.10	$ 0.24	$ 0.30

(1) The results for the quarter ended September 30, 2003 includes $11.6 million of in-process research and development expense related to an acquisition.

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(2) Stock-based compensation, consisting of amortization of deferred stock-based compensation and the reassessed value of options issued to non-employees for services rendered, is allocated in the table that follows. Stock-based compensation in any quarter is affected by the number of grants in the current and prior quarters, and the difference between the values determined by the board of directors on the date of grant and the reassessed values used for financial accounting purposes. The use of the accelerated basis of amortization results in significantly greater stock-based compensation in the first year of vesting compared to subsequent years.

	Quarter Ended									
	Mar 31, 2002	Jun 30, 2002	Sep 30, 2002	Dec 31, 2002	Mar 31, 2003	Jun 30, 2003	Sep 30, 2003	Dec 31, 2003	Mar 31, 2004	Jun 30, 2004
	(in thousands) (unaudited)									
Cost of revenues	$ 146	$ 158	$ 343	$ 418	$ 1,452	$ 1,361	$ 3,008	$ 2,736	$ 5,076	$ 2,546
Research and development	1,242	1,415	2,802	3,287	19,423	18,814	43,878	56,262	46,265	45,836
Sales and marketing	473	827	1,528	2,106	7,618	7,093	15,819	14,077	14,146	13,431
General and administrative	1,913	1,335	1,509	2,133	7,925	6,897	11,089	11,909	10,986	12,948
	$ 3,774	$ 3,735	$ 6,182	$ 7,944	$ 36,418	$ 34,165	$ 73,794	$ 84,984	$ 76,473	$ 74,761

The following table presents our unaudited quarterly results of operations as a percentage of revenues for the ten quarters ended June 30, 2004.

	Quarter Ended									
	Mar 31, 2002	Jun 30, 2002	Sep 30, 2002	Dec 31, 2002	Mar 31, 2003	Jun 30, 2003	Sep 30, 2003	Dec 31, 2003	Mar 31, 2004	Jun 30, 2004
As Percentage of Revenues:										
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:										
Cost of revenues	13.5	26.0	30.3	35.0	35.1	37.7	43.3	49.0	48.4	46.6
Research and development(1)	14.6	8.2	6.9	5.4	5.0	5.6	8.3	5.5	5.4	6.5
Sales and marketing	17.2	14.2	9.0	7.3	7.2	8.0	9.3	8.0	7.4	8.1
General and administrative	9.8	7.2	5.6	3.8	4.0	4.0	3.5	4.0	3.3	3.7
Stock-based compensation(2)	8.9	4.8	4.7	4.2	14.6	11.0	18.7	16.6	11.7	10.7
Total costs and expenses	64.0	60.4	56.5	55.7	65.9	66.3	83.1	83.1	76.2	75.6
Income from operations	36.0	39.6	43.5	44.3	34.1	33.7	16.9	16.9	23.8	24.4
Interest income, expense and other, net	(1.2)	(0.4)	(0.5)	(0.0)	(0.0)	0.2	0.1	0.6	0.1	(0.2)
Income before income taxes	34.8	39.2	43.0	44.3	34.1	33.9	17.0	17.5	23.9	24.2
Net income	18.7%	21.1%	23.2%	23.9%	10.4%	10.3%	5.2%	5.3%	9.8%	11.3%

(1) The results for the quarter ended September 30, 2003 includes $11.6 million of in-process research and development expense related to an acquisition.

(2) Stock-based compensation, consisting of amortization of deferred stock-based compensation and the reassessed value of options issued to non-employees for services rendered, is allocated in the table that follows. Stock-based compensation in any quarter is affected by the number of grants in the current and prior quarters, and the difference between the values determined by the board of directors on the date of grant and the reassessed values used for financial accounting purposes. The use of the accelerated basis of amortization results in significantly greater stock-based compensation in the first year of vesting compared to subsequent years.

	Quarter Ended									
	Mar 31, 2002	Jun 30, 2002	Sep 30, 2002	Dec 31, 2002	Mar 31, 2003	Jun 30, 2003	Sep 30, 2003	Dec 31, 2003	Mar 31, 2004	Jun 30, 2004
Cost of revenues	0.4%	0.2%	0.3%	0.2%	0.6%	0.4%	0.8%	0.5%	0.8%	0.4%
Research and development	2.9	1.8	2.1	1.8	7.8	6.1	11.1	11.0	7.1	6.5
Sales and marketing	1.1	1.1	1.2	1.1	3.0	2.3	4.0	2.8	2.1	1.9
General and administrative	4.5	1.7	1.1	1.1	3.2	2.2	2.8	2.3	1.7	1.9
	8.9%	4.8%	4.7%	4.2%	14.6%	11.0%	18.7%	16.6%	11.7%	10.7%

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Liquidity and Capital Resources

In summary, our cash flows were:

	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
			(in thousands)		
				(unaudited)	
Net cash provided by operating activities	$ 31,089	$ 155,265	$ 395,445	$ 177,174	$ 370,604
Net cash used in investing activities	(29,091)	(109,717)	(313,954)	(92,059)	(294,994)
Net cash provided by (used in) financing activities	(2,439)	(5,473)	8,090	3,899	32,327

Since inception, we have financed our operations primarily through internally generated funds, private sales of preferred stock totaling $37.6 million and the use of our lines of credit with several financial institutions. At June 30, 2004, we had $548.7 million of cash, cash equivalents and short-term investments, compared to $334.7 million, $146.3 million and $33.6 million at December 31, 2003, 2002 and 2001, respectively. Cash equivalents and short-term investments are comprised of highly liquid debt instruments of the U.S. government and its agencies and municipalities. Note 2 of Notes to Consolidated Financial Statements included as part of this prospectus describes further the composition of our short-term investments.

Our principal sources of liquidity are our cash, cash equivalents and short-term investments, as well as the cash flow that we generate from our operations. At June 30, 2004 and December 31, 2003, we had unused letters of credit for approximately $14.9 million and $12.2 million. We believe that our existing cash, cash equivalents, short-term investments 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 the extent necessary 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 primarily consists of net income adjusted for certain non-cash items including depreciation, amortization, stock-based compensation, and the effect of changes in working capital and other activities. Cash provided by operating activities in the six months ended June 30, 2004 was $370.6 million and consisted of net income of $143.0 million, adjustments for non-cash items of $206.9 million and $20.7 million provided by working capital and other activities. Working capital and other activities primarily consisted of an increase in income tax liabilities, net, of $43.0 million (before a reduction in income taxes payable of $93.2 million due to warrant exercises), partially offset by an increase of $36.5 million in accounts receivable due to the growth in fees billed to our advertisers.

Cash provided by operating activities in the six months ended June 30, 2003 was $177.2 million and consisted of net income of $58.0 million, adjustments for non-cash items of $93.3 million and $25.9 million provided by working capital and other activities. Working capital and other activities primarily consisted of an increase in income tax liabilities, net, of $16.6 million and an increase of $35.9 million in accrued revenue share due to the growth in our AdSense programs and the timing of payments made to our Google Network members, partially offset by an increase of $34.2 million in accounts receivable due to the growth in fees billed our advertisers.

Cash provided by operating activities in 2003 was $395.4 million and consisted of net income of $105.6 million, adjustments for non-cash items of $296.0 million and $6.2 million used by working capital and other activities. Working capital and other activities primarily consisted of an increase of $90.4 million in accounts receivable due to the growth in fees billed our advertisers and an increase of $58.9 million in prepaid revenue share, expenses and other assets, due primarily to an increase of $35.5 million related to prepaid revenue share, as a result of several significant prepayments made in the fourth quarter of 2003, as well as an increase of

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$11.0 million of restricted cash relating to our operating leases. This was partially offset by an increase of $74.6 million in accrued revenue share due to the growth in our AdSense programs and the timing of payments made to our Google Network members and an increase of $31.1 million in accrued expenses and other liabilities primarily due to an increase in annual bonuses as a result of the growth in the number of employees. These bonuses were paid in the first quarter of 2004.

Cash provided by operating activities in 2002 was $155.3 million and consisted of net income of $99.7 million, adjustments for non-cash items of $50.6 million and $5.0 million provided by working capital and other activities. Cash provided by operating activities in 2001 was $31.1 million and consisted of net income of $7.0 million, adjustments for non-cash items of $26.6 million and $2.5 million used by working capital and other activities.

As warrants to purchase an additional 1,996,140 shares of our stock, and as certain options to purchase additional shares of Class A and Class B common stock, are exercised as anticipated over the current and future years, we expect to realize significant reductions in our tax liabilities. In addition, we expect to realize a significant reduction in our tax liabilities in the three months ended September 30, 2004 as a result of the issuance of 2,700,000 shares of our Class A common stock pursuant to the settlement of certain disputes with Yahoo in August 2004. Note 14 of Notes to Consolidated Financial Statements included as part of this prospectus provides further disclosure of this settlement and a preliminary estimate of the tax benefit. The reduction in our tax liability is computed based on the applicable statutory rates and the difference between the value of our stock on the date of exercise or issuance, as determined by our board of directors or the market, and the price paid for those shares.

Also, as we expand our business internationally, we may offer 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, we expect that, once we are a public company, our cash-based compensation per employee will likely increase (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 six months ended June 30, 2004 of $295.0 million was attributable to capital expenditures of $182.3 million, net purchases of short-term investments of $109.2 million and cash consideration used in acquisitions of $3.5 million. Cash used in investing activities in the six months ended June 30, 2003 of $92.1 million was attributable to capital expenditures of $60.6 million and net purchases of short-term investments of $7.9 million. Capital expenditures are mainly for the purchase of information technology assets. Cash used in investing activities in 2003 of $314.0 million was attributable to capital expenditures of $176.8 million, net purchases of short-term investments of $97.2 million and net cash consideration used in acquisitions of $40.0 million. Cash used in investing activities in 2002 of $109.7 million was primarily attributable to net purchases of short-term investments of $72.6 million and capital expenditures of $37.2 million. Cash used in investing activities in 2001 of $29.1 million was primarily attributable to net purchases of short-term investments of $14.9 million and capital expenditures of $13.1 million. 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 currently expect to spend at least $300 million on capital equipment, including information technology infrastructure comprised primarily of production servers and network equipment, to manage our operations during 2004.

Cash provided by financing activities in the six months ended June 30, 2004 of $32.3 million was due primarily to proceeds from the issuance of common and convertible preferred stock pursuant to warrant exercises of $21.9 million, as well as to proceeds from the issuance of common stock pursuant to stock option exercises of $8.6 million, net of repurchases, and a $4.3 million payment received from a stockholder on a note receivable, offset by repayment of capital lease obligations of $2.4 million. Cash provided by financing activities in the six months ended June 30, 2003 of $3.9 million was due to proceeds from the issuance of common stock pursuant to stock option exercises of $7.8 million, net of repurchases, offset by repayment of equipment loans and capital lease obligations of $3.9 million. Cash provided by financing activities in 2003 of $8.1 million was due to proceeds from the issuance of common stock pursuant to stock option exercises of $15.5 million, net of repurchases, offset by repayment of equipment loan and lease obligations of $7.4 million. Cash used in financing activities in 2002 of $5.5 million was due to repayment of equipment loan and capital lease obligations of $7.7 million, partially offset by proceeds from the issuance of common stock pursuant to stock option exercises of $2.3 million, net of repurchases. Cash used in financing activities in 2001 of $2.4 million was primarily due to repayment of equipment loan and capital lease obligations of $4.5 million partially offset by proceeds from the issuance of convertible preferred stock of $1.0 million and the issuance of common stock pursuant to stock option exercises of $1.0 million, net of repurchases. We estimate that we will receive significant net proceeds from our sale of shares of Class A common stock offered by us in this offering. We currently have no specific plans for the use of these net proceeds. See Use of Proceeds above. Pending such uses, we plan to invest the net proceeds in highly liquid, investment grade securities.

Contractual Obligations

Contractual obligations at December 31, 2003 are as follows:

	Payments due by period				
	Total	**Less than 12 months**	**13-48 months**	**49-60 months**	**More than 60 months**
			(in millions) (unaudited)		
Guaranteed minimum revenue share payments	$ 477.0	$ 205.1	$ 271.9	$	$
Capital lease obligations	7.4	5.3	2.1		
Operating lease obligations	146.7	7.4	50.9	18.8	69.6
Purchase obligations	11.9	8.8	3.1		
Other long-term liabilities reflected on our balance sheet under GAAP	1.5		0.2	0.2	1.1
Total contractual obligations	$ 644.5	$ 226.6	$ 328.2	$ 19.0	$ 70.7

Guaranteed Minimum Revenue Share Payments

In connection with our AdSense revenue share agreements, we are periodically required to make non-cancelable guaranteed minimum revenue share payments to a small number of our Google Network members over the term of the respective contracts. Under our contracts, these guaranteed payments can vary based on our Google Network members achieving defined performance terms, such as number of advertisements displayed or search queries. In some cases, certain guaranteed amounts will be adjusted downward if our Google Network members do not meet their performance terms and, in some cases, these amounts will be adjusted upward if they exceed their performance terms. Upward adjustments are capped at total advertiser fees generated under an AdSense agreement during the guarantee period. The amounts included in the table above assume that the historical upward performance adjustments with respect to each contract will continue, but do not make a similar assumption with respect to downward adjustments. We believe these amounts best represent a reasonable estimate of the future minimum guaranteed payments. Actual guaranteed payments may differ from the estimates presented above. To date, total advertiser fees generated under these AdSense agreements have exceeded the total guaranteed minimum revenue share payments. Five of our Google Network members account for approximately 70% of the total future guaranteed minimum revenue share payments and 10 of our Google Network members account for 91% of these payments. In 2003, we made $108.8 million of non-cancellable minimum guaranteed revenue payments. At June 30, 2004, our aggregate outstanding non-cancellable minimum guarantee commitments totaled $369.4 million through 2007.

In addition, in connection with some other AdSense agreements, we have agreed to make an aggregate of $51.9 million of minimum revenue share payments through 2006. This amount is not included in the above table

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since we generally have the right to cancel these agreements at any time. Because we sometimes cancel agreements that perform poorly, we do not expect to make all of these minimum revenue share payments. At June 30, 2004, this amount had decreased to $27.5 million.

Capital Lease Obligations

At December 31, 2003, we had capital lease obligations of $7.4 million (comprised of $6.6 million of principal and $800,000 of interest) related to several of our equipment leases. These amounts will come due under the terms of the arrangements at various dates through October 2005.

Operating Leases

During 2003, we entered into a nine-year sublease for our headquarters in Mountain View, California. According to the terms of the sublease, we will begin making payments in July 2005 and payments will increase at 3% per annum thereafter. We recognize rent expense on our operating leases on a straight-line basis as of the commencement of the lease. The lease terminates on December 31, 2012; however, we may exercise two five-year renewal options at our discretion. We have an option to purchase the property for approximately $172.4 million, which is exercisable in 2006.

In addition, we have entered into various other non-cancelable operating lease agreements for our offices and certain of our data centers throughout the U.S. and internationally with original lease periods expiring between 2004 and 2015. We recognize rent expense on our operating leases on a straight-line basis at the commencement of the lease. Certain of these leases have free or escalating rent payment provisions. We recognize rent expense under such leases on a straight-line basis. Total payments relating to leases having an initial or remaining non-cancelable term of less than one year are $2.3 million and are not included in the table above.

Subsequent to December 31, 2003, we entered into additional non-cancelable operating lease agreements with future minimum commitment payments as follows: $900,000 due in less than 12 months, $11.7 million due in 13-48 months, $6.6 million due in 49-60 months and $10.6 million due in more than 60 months which are not included in the above table.

Purchase Obligations

Purchase obligations in the above table represent non-cancelable contractual obligations at December 31, 2003. In addition, we had $24.9 million of open purchase orders for which we have not received the related services or goods at December 31, 2003. This amount is not included in the above table since we have the right to cancel the purchase orders upon 10 days notice prior to the date of delivery. The majority of our purchase obligations are related to data center operations.

Acquisition of Applied Semantics

In April 2003, we acquired all of the outstanding capital stock of Applied Semantics, Inc., a privately held provider of content-targeted advertising programs. The total purchase price consisted of a cash payment of $41.5 million and 2,382,800 shares of, and options to purchase, Class A common stock. The transaction was accounted for as a business combination. For additional information, see Note 4 of Notes to Consolidated Financial Statements included as part of this prospectus.

Off-Balance Sheet Entities

At December 31, 2003 and 2002, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the U.S. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. In 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. Our management has reviewed our critical accounting policies and estimates with our board of directors.

Stock-Based Compensation

Accounting for Stock-Based Awards to Employees

We have granted stock options at exercise prices equal to 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 have applied hindsight to arrive at reassessed values for the shares underlying our options and issued under other transactions. There are two measures of value of our common stock that are relevant to our accounting for equity compensation relating to our compensatory equity grants:

The board-determined value is the per share value of our common stock determined by our board of directors at the time the board makes an equity grant, taking into account a variety of factors, including our historical and projected financial results, comparisons of comparable companies, risks facing us, as well as the liquidity of the common stock.

The reassessed value is the per share value of our common stock determined by us in hindsight solely for the purpose of financial accounting for employee stock-based compensation.

We record deferred stock-based compensation to the extent that the reassessed value of the stock at the date of grant exceeds the exercise price of the option. The reassessed values for accounting purposes were determined based on a number of factors and methodologies. One of the significant methods we used to determine the reassessed values for the shares underlying options is through a comparison of price multiples of our historical and forecasted earnings to certain public companies involved in the same or similar lines of business. The market capitalizations of these companies has increased significantly since January 2003 which contributed significantly to the increase in the reassessed values of our shares. We also considered our financial performance and growth, primarily since January 2003. Our revenue and earnings growth rates contributed significantly to the increase in the reassessed values of our shares. The reassessed values of our shares increased more significantly in dollar and percentage terms in earlier periods compared to later ones which is reflective of the related revenue and earnings growth rates. We also retained third party advisors to provide two contemporaneous valuation analyses since January 2003 and used this information to support our own valuation analyses. Please note that these reassessed values are inherently uncertain and highly subjective. If we had made different assumptions, our deferred stock-based compensation amount, stock-based compensation expense, in-process research and development expense, net income, net income per share and recorded goodwill amounts could have been significantly different.

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The table below shows the computation of deferred stock-based compensation amounts arising from restricted shares and unvested stock options granted to employees for each of the three month periods set forth below:

	Three Months Ended					Three Months Ended	
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003	2003 Total	March 31, 2004	June 30, 2004
	(unaudited)	(unaudited)	(unaudited)	(unaudited)		(unaudited)	(unaudited)
Options granted to employees	10,262,100	1,431,552	5,785,185	1,281,895	18,760,732	1,004,780	965,520
Weighted average exercise price	$ 0.49	$ 3.30	$ 5.17	$ 9.62		$ 16.27	$ 38.43
Weighted average reassessed value of underlying stock	$ 13.09	$ 33.99	$ 52.33	$ 75.05		$ 88.13	$ 97.03
Weighted average reassessed deferred stock-based compensation per option	$ 12.60	$ 30.69	$ 47.16	$ 65.43		$ 71.86	$ 58.60
Deferred stock-based compensation related to options (in millions)	$ 129.3	$ 43.9	$ 272.8	$ 83.9	$ 529.9	$ 72.2	$ 56.6
Restricted shares granted to employees		120,000	114,999		234,999		16,175
Weighted average reassessed value of restricted shares		$ 25.96	$ 66.41				$ 95.09
Deferred stock-based compensation related to restricted shares (in millions)		$ 3.1	$ 7.6		$ 10.7		$ 1.5
Deferred stock-based compensation related to option modifications (in millions)				$ 10.8	$ 10.8	$ 3.9	
Total deferred stock-based compensation (in millions)	$ 129.3	$ 47.0	$ 280.4	$ 94.7	$ 551.4	$ 76.1	$ 58.1

We recognize compensation expense as we amortize the deferred stock-based compensation amounts on an accelerated basis over the related vesting periods. The table below shows employee and non-employee stock-based compensation expense recognized during 2001, 2002, 2003 and through the six months ended June 30, 2004. In addition, the table presents the expected stock-based compensation expense for options granted to employees prior to July 1, 2004, for the second half of 2004 and for each of the next four years and thereafter, assuming no change in the stock option accounting rules and assuming all employees remain employed by us for their remaining vesting periods. These amounts are compared to the expense and expected expense we would have recognized had we amortized deferred stock-based compensation on a straight-line basis.

Stock-based compensation expense

	Year Ended December 31,								
	2001	2002	2003	2004	2005	2006	2007	2008	thereafter
					(in millions)				
Accelerated basis	$ 12.4	$ 21.6	$ 229.4	$ 268.4	$ 137.7	$ 66.9	$ 24.1	$ 5.2	$ 1.7
Straight-line basis	$ 5.9	$ 13.3	$ 120.5	$ 170.5	$ 164.2	$ 153.8	$ 101.7	$ 30.4	$ 8.3

We have elected to not record stock-based compensation expense for employee stock option awards using the Black-Scholes option-pricing model. This model was developed for use in estimating the fair value of freely traded options that have no vesting restrictions and are fully transferable. In addition, this model requires the input of highly subjective assumptions including the expected life of options and our expected stock price volatility. Because our employee stock options have characteristics significantly different from those of freely traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in our opinion, this model does not provide a reliable measure of the fair value of our employee stock options. Note 1 of Notes to Consolidated Financial Statements included as part of this prospectus describes what the impact would have been had we expensed employee stock awards under the fair value method using the Black-Scholes option-pricing model.

Accounting for Stock-Based Awards to Non-employees

We measure the fair value of options to purchase our common stock granted to non-employees throughout the vesting period as they are earned, at which time we recognize a charge to stock-based compensation. The fair value is determined using the Black-Scholes option-pricing model, which considers the exercise price relative to the reassessed value of the underlying stock, the expected stock price volatility, the risk-free interest rate and the dividend yield. As discussed above, the reassessed value of the underlying stock were based on assumptions of matters that are inherently highly uncertain and subjective. As there has been no public market for our stock, our assumptions about stock-price volatility are based on the volatility rates of comparable publicly held companies. These rates may or may not reflect our stock-price volatility should we become a publicly held company. If we had made different assumptions about the reassessed value of our stock or stock-price volatility rates, the related stock-based compensation expense and our net income and net income per share amounts could have been significantly different.

Effect of Recent Accounting Pronouncements

In November 2002, the EITF reached a consensus on Issue 00-21, *Accounting for Multiple Element Revenue Arrangements*, addressing how to account for arrangements that involve the delivery or performance of multiple products, services, and/or rights to use assets. Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (1) the delivered item has value to the customer on a standalone basis; (2) there is objective and reliable evidence of the fair value of undelivered items; and (3) delivery of any undelivered item is probable. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair values, with the amount allocated to the delivered item limited to the amount that is not contingent on the delivery of additional items or meeting other specified performance conditions. The guidance in Issue 00-21 is effective for revenue arrangements entered into in fiscal periods after June 15, 2003. The adoption of Issue 00-21 did not have an impact on our financial statements. See the further discussion in Note 1 of Notes to the Consolidated Financial Statements included as part of this prospectus.

During November 2002, the FASB issued Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34* (FIN 45). FIN 45 elaborates on the existing disclosure requirements for a guarantor in its interim and annual financial statements regarding its obligations under guarantees issued. It also clarifies that at the time a guarantee is issued, the guarantor must recognize an initial liability for the fair value of the obligations it assumes under the guarantee and must disclose that information in its financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees of third party obligations issued or modified after December 31, 2002, and the disclosure requirements apply to such guarantees outstanding at December 31, 2002. The Company adopted the provisions of FIN 45 at January 1, 2003. The adoption of this Interpretation did not have an impact on our operating results. See further discussion regarding indemnifications in Note 7 to the Notes to the Consolidated Financial Statements included with this prospectus.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*. Interpretation No. 46 clarifies the application of Accounting Research Bulletin No. 51. This Interpretation requires variable interest entities to be consolidated if the equity investment at risk is not sufficient to permit an entity to finance its activities without support from other parties or the equity investors lack specified characteristics. We do not have any variable interest entities.

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In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments as a liability (or as an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on our financial statements.

Qualitative and Quantitative Disclosures about Market Risk

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

Foreign Exchange Risk

Our exposure to foreign currency transaction gains and losses is the result of certain net receivables of the U.S. parent due from its subsidiaries and customers being denominated in currencies other than the U.S. dollar, primarily the British Pound, the Euro and the Japanese Yen. Our foreign subsidiaries conduct their businesses in local currency. Effective January 2004, we began to bill our international online sales through a foreign subsidiary, which will lower our exposure to foreign currency transaction gains and losses. In addition, 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 primary vehicle we expect to use will be 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. In the three months ended June 30, 2004, we entered into forward foreign exchange contracts to offset the foreign exchange risk on certain existing intercompany assets. The notional principal of forward exchange contracts to purchase U.S. dollars with Euros was $116.9 million at June 30, 2004. There were no other forward foreign exchange contracts outstanding at June 30, 2004.

Our exposure to foreign currency translation gains and losses arises from the translation of certain net assets of our subsidiaries to U.S. dollars during consolidation. During 2003, we recognized a foreign currency translation gain of $1.7 million as a result of greater aggregate net assets of our subsidiaries and stronger foreign currencies compared to the U.S. dollar at December 31, 2003 than at December 31, 2002.

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 $18.7 million and $4.5 million at June 30, 2004 and December 31, 2003. 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. The increase in the reasonably possible adverse impact of $18.7 million and $4.5 million at June 30, 2004 and December 31, 2003 were primarily the result of an increase in intercompany receivables and cash held by our Irish subsidiary denominated in foreign currencies. The transaction gains and losses that netted to a $2.8 million loss and a $2.1 million gain in the three months and year ended June 30, 2004 and December 31, 2003 are a function of the exchange rates on the dates these transactions were entered into and the dates they were settled or the balance sheet dates.

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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 investment securities of approximately $3.2 million and $1.9 million at June 30, 2004 and December 31, 2003.

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BUSINESS

Overview

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

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

Our Mission

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

- We will do our best to provide the most relevant and useful search results possible, independent of financial incentives. Our search results will be objective and we will not accept payment for inclusion or ranking in them.
- We will do our best to provide the most relevant and useful advertising. If any element on a result page is influenced by payment to us, we will make it clear to our users. Advertisements should not be an annoying interruption.
- We will never stop working to improve our user experience, our search technology and other important areas of information organization.

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

How We Provide Value to Users, Advertisers and Web Sites

Our Users

We serve our users by developing products that enable people to more quickly and easily find, create and organize information. We place a premium on products that matter to many people and have the potential to improve their lives, especially in areas in which our expertise enables us to excel.

Search is one such area. People use search frequently and the results are often of great importance to them. For example, people search for information on medical conditions, purchase decisions, technical questions, long-lost friends and other topics about which they care a great deal. Delivering quality search results requires significant computing power, advanced software and complex processes areas in which we have expertise and a high level of focus.

Communication is another such area. People increasingly rely on the Internet to communicate with each other. Gmail, our new email service (still in test mode), offers a gigabyte of free storage for each user, along with email search capabilities and relevant advertising. Delivering an improved user experience in Gmail has similar computing and software requirements as our search service.

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Some of the key benefits we offer to users include:

Relevant and Useful Information. Our technologies sort through a vast and growing amount of information to deliver relevant and useful search results in response to user queries. This is an area of continual development for us. When we started the company five years ago, our web index contained approximately 30 million documents. We now index more than 4 billion web pages, or more than 100 times as much information. We are also constantly developing new functionality. Recent enhancements include personalization, which lets users specify interests to help our technology generate customized search results; and local search, which lets users look for web pages and businesses based on a certain geographic location. We also provide convenient links to specialized information, such as definitions, maps and travel information.

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

Global Access. We strive to provide Google to everyone in the world. Users from around the world visit our destination sites at Google.com and our 95 other international domains, such as Google.de, Google.fr, Google.co.uk, Google.co.jp and Google.ca. The Google interface is available in more than 90 languages. Through Google News, we offer an automated collection of frequently updated news stories tailored to 10 international audiences. We also offer automatic translation of content between various languages. We provide localized versions of Google in many developing countries. Although we do not currently recover our costs in these countries, we believe providing our products and services is an important social good and a valuable long-term business investment.

Ease of Use. We have always believed that the most useful and powerful search technology hides its complexity from users and provides them with a simple, intuitive way to get the information they want. We have devoted significant efforts to create a streamlined and easy-to-use interface based on a clean search box set prominently on a page free of commercial clutter. We have also created many features that enhance the user experience. Our products present these features when we believe they will be most useful, rather than promoting them unnecessarily. For example, Google WebSearch offers maps when a search appears to be for a geographic location.

Pertinent, Useful Commercial Information. The search for information online often involves an interest in commercial information researching a purchase, comparing products and services or actively shopping. We help people find commercial information through our search services and by presenting ads that are relevant to the information people seek. To ensure we display only the most relevant commercial information, our technology automatically rewards ads that users prefer and removes ads that users do not find helpful. For example, among our search services, we offer Froogle, a search engine for finding products for sale online.

Our Advertisers

As more people spend additional time and money online, advertisers are increasingly turning to the Internet to market their products and services to consumers. For these advertisers, we offer Google AdWords, 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. The advertisers using AdWords range from small businesses targeting local customers to many of the world s largest global enterprises.

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The AdWords program offers advertisers the following benefits:

Effective Return on Investment. Many advertising dollars are wasted because they are spent delivering messages that are ignored or that reach too broad an audience. With Google AdWords, businesses can achieve greater cost-effectiveness with their marketing budgets for two reasons AdWords shows ads only to people seeking information related to what the advertisers are selling, and advertisers pay us only when a user clicks on one of their ads. Because we offer a simple ad format, advertisers can avoid incurring significant design, copywriting or other production costs associated with creating ads. As a result, even small advertisers find AdWords cost-effective for connecting with potential customers. In addition, advertisers can easily create many different ads, increasing the likelihood that an ad is exactly suited to a user s search. Users can find advertisements for exactly what they are seeking, and advertisers can find users who want exactly what they are offering. When the interests of users and advertisers align, both are well served.

Access to the Google Network. We serve AdWords ads to the thousands of third-party web sites that make up the Google Network. As a result, advertisers that use our AdWords program can target users on our sites and on search and content sites across the web. This gives advertisers increased exposure to people who are likely to be interested in their offerings. The Google Network significantly enhances our ability to attract interested users.

Precise Campaign Control. Google AdWords gives advertisers hands-on control over most elements of their ad campaigns. Advertisers can specify the relevant search or content topics for each of their ads. Advertisers can also manage expenditures by setting a maximum daily budget and determining how much they are willing to pay whenever a user clicks on an ad. Our online tracking tools and reports give advertisers timely updates on how well their campaigns are performing and enable them to make changes or refinements quickly. Advertisers can also target their campaigns by neighborhood, city, country, region or language.

Global Support. We provide customer service to our advertiser base through our global support organization as well as through field sales offices in 11 countries. AdWords is available on a self-service basis with email support. Advertisers with more extensive needs and budgets can request strategic support services, which include an account team of experienced professionals to help them set up, manage and optimize their campaigns.

Web Sites

Nearly every web site in the world is indexed and made searchable by Google. Our users do searches and are directed to relevant web sites. Google provides a significant amount of traffic to web sites with which we have no business relationship. Many web sites are able to generate revenue from that traffic, but others have difficulty doing so. We are enthusiastic about helping sites make money and thereby facilitating the creation of better content to search. If there is better content on the web, people are likely to do more searches, and we expect that will be good for our business and for users. To address this opportunity, we created Google AdSense. Our Google AdSense program enables the web sites large and small that make up the Google Network to deliver AdWords ads that are relevant to the search results or content on their pages. We share most of the revenue generated from ads shown by a member of the Google Network with that member creating an additional revenue stream for them. Web sites can also license our Google WebSearch product to offer the Google search experience to their users. The key benefits we offer to web sites in the Google Network include:

Access to Advertisers. Many small web site companies do not have the time or resources to develop effective programs for generating revenue from online advertising. Even larger sites, with dedicated sales teams, may find it difficult to generate revenue from pages with specialized content. We believe that Google AdSense enables Google Network members to generate revenue from their sites more effectively and efficiently. Google AdSense promotes effective revenue generation by providing Google Network members immediate access to Google s base of advertisers and their broad collection of ads. As soon as a web site joins the Google Network, our technology automatically begins delivering ads for posting on the member s web site. The automated nature of our advertising programs promotes efficient revenue generation. Our online registration systems enable web sites to easily join the Google Network and our ad serving technology allows automated delivery of ads for posting on the member s site. The Google Network member determines the placement of the ads on its web site and controls and directs the nature of ad content.

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

Products and Services

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

Google.com

We are focused on building products and services that benefit our users and enable them to find relevant information quickly and easily. We offer, free of charge, all of the following services at Google.com and many of them at our international sites.

Google WebSearch. In addition to providing easy access to more than 4 billion web pages, we have integrated special features into Google WebSearch to help people find exactly what they are looking for on the web. The Google.com search experience also includes:

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

Spell Checker suggests alternate search terms when a search appears to contain misspellings or typing errors.

Web Page Translation automatically translates web pages published in French, German, Italian, Portuguese and Spanish into English, or vice versa.

Stock Quotes provides links to stock and mutual fund information.

Street Maps provides links to street maps and directions.

Calculator solves math problems involving basic arithmetic, complicated math or physical constants and converts between units of measure.

Definitions provides definitions for words or phrases based on content we have indexed.

PhoneBook provides U.S. street addresses and phone numbers for U.S. businesses and residences.

Search by Number enables people to conduct quick searches by entering FedEx, UPS and USPS package tracking numbers, vehicle ID numbers, product codes, telephone area codes, patent numbers, FAA airplane registration numbers and FCC equipment ID numbers.

Travel Information enables people to check the status of U.S. airline flights and see delays and weather conditions at U.S. airports.

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

Google Image Search. Google Image Search is our searchable index of 880 million images found across the web. To extend the usefulness of Google Image Search, we offer advanced features, such as searching by image size, format and coloration and restricting searches to specific web sites or domains.

Google News. Google News gathers information from nearly 10,000 news sources worldwide and presents news stories in a searchable format within minutes of their publication on the web. The leading stories are presented as headlines on the Google News home page. These headlines are selected for display entirely by a computer algorithm, without regard to political viewpoint or ideology. Google News uses an automated process to pull together related headlines, which enables people to see many different viewpoints on the same story. Because topics are updated continuously throughout the day, people generally see new stories each time they check Google News. We currently provide our Google News service tailored to 10 international audiences.

Google Toolbar. The Google Toolbar makes our search technology constantly and easily available as people browse the web. The Google Toolbar is available as a free, fast download and can improve people s web experience through several innovative features, including:

Pop-up Blocker blocks pop-up advertising while people use the web.

PageRank Indicator displays Google s ranking of any page on the web.

AutoFill completes web forms with information saved securely on a user s own computer.

Highlight highlights search terms where they appear on a web page, with each term marked in a different color.

Word Find finds search terms wherever they appear on a web page.

Froogle. Froogle enables people to easily find products for sale online. By focusing entirely on product search, Froogle applies the power of our search technology to a very specific task locating stores that sell the items users seek and pointing them directly to the web sites where they can shop. Froogle users can sort results by price, specify a desired price range and view product photos. Froogle accepts data feeds directly from merchants to ensure that product information is up-to-date and accurate. Most online merchants are also automatically included in Froogle s index of shopping sites. Because we do not charge merchants for inclusion in Froogle, our users can browse product categories or conduct product searches with confidence that the results we provide are relevant and unbiased. As with many of our products, Froogle displays relevant advertising separately from search results.

Google Groups. Google Groups enables easy participation in Internet discussion groups by providing users with tools to search, read and browse these groups and to post messages of their own. Google Groups contains the entire archive of Usenet Internet discussion groups dating back to 1981 more than 845 million posted messages. The discussions in these groups cover a broad range of discourse and provide a comprehensive look at evolving viewpoints, debate and advice on many subjects.

Google Wireless. Google Wireless offers people the ability to search and view both the mobile web, consisting of 5 million pages created specifically for wireless devices, and the entire Google index of more than 4 billion web pages. Google Wireless works on devices that support WAP, WAP 2.0, i-mode or j-sky mobile Internet protocols. Google Wireless is available through many wireless and mobile phone services worldwide.

Google Web Directory. Google Web Directory enables people to browse and search through web sites that have been organized into categories. Our directory combines Google s search technology with the categorization developed by the Open Directory Project and is available in 73 languages.

Google Local. Google Local enables users to find relevant local information based on zip codes, cities or specific addresses. Google Local results include neighborhood business listings, addresses, phone numbers, maps and directions.

Google Answers. Google Answers provides people with help finding information and answering questions. Users set a fee they are willing to pay and submit questions to the Google Answers service. One of more than 500 carefully screened freelance researchers responds, usually within 24 hours. Google Answers researchers are experienced web searchers with strong communication skills who often have expertise in various fields. An extensive collection of past responses is available to our users free of charge.

Google Catalogs. With Google Catalogs, we provide access to the full content of more than 6,600 mail-order catalogs, many of which were previously unavailable online.

Google Print. Google Print brings information online that had previously not been available to web searchers. Under this program, we have been experimenting with a number of publishers to host their content and rank their publications in our search results using the same technology we use to evaluate web sites. On Google Print pages, we provide links to book sellers that may offer the full versions of these publications for sale, and we show content-targeted ads that are served through the Google AdSense program.

Google Labs. Google Labs is our playground for our engineers and for adventurous Google users. On Google Labs, we post product prototypes and solicit feedback on how the technology could be used or improved. Current Google Labs examples include:

Google Personalized Search provides customized search results based on an individual user s interests.

Google Deskbar enables people to search with Google from the taskbar of their computer without launching a web browser.

Voice Search enables people to dial a phone number, tell our system what they are looking for and hear Google search results read to them by a computer.

Froogle Wireless gives people the ability to search for product information from their mobile phones and other wireless devices.

Blogger. Blogger is a leading web-based publishing tool that gives people the ability to publish to the web instantly using weblogs, or blogs. Blogs are web pages usually made up of short, informal, frequently updated posts that are arranged chronologically. Blogs can facilitate communications among small groups or to a worldwide audience in a way that is simpler and easier to follow than traditional email or discussion forums.

Picasa. We recently acquired Picasa, Inc., a digital photo management company. Picasa enables users to manage and share digital photographs and helps support our mission of making information universally accessible and useful.

Limited Availability Services. Some of our product offerings are in their initial test phases and are currently available to limited audiences. Examples include Gmail, our free email service, and Orkut, an invitation-based online meeting place where people can socialize, make new acquaintances and find others who share their interests.

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Google AdWords

Google AdWords is our global advertising program, which enables advertisers to present ads to people at the precise moment those people are looking for information related to what the advertiser has to offer. Advertisers use our automated tools, often with little or no assistance from us, to create text-based ads, bid on the keywords that will trigger the display of their ads and set daily spending budgets. AdWords features an automated, low-cost online signup process that enables advertisers to implement ad campaigns that can become live in 15 minutes or less. The total sign-up cost for becoming an AdWords advertiser is only $5.00.

Ads are ranked for display in AdWords based on a combination of the maximum cost per click (CPC) set by the advertiser and click-through rates and other factors used to determine the relevance of the ads. This favors the ads that are most relevant to users, improving the experience for both the person looking for information and the advertiser looking for interested customers. AdWords has many features that make it easy to set up and manage ad campaigns for maximum efficiency and effectiveness:

Campaign management. Advertisers can target multiple ads to a given keyword and easily track individual ad performance to see which ads are the most effective. The campaign management tools built into AdWords enable advertisers to quickly shift their budgets to ads that deliver the best results.

Keyword targeting. Businesses can deliver targeted ads based on specific search terms (keywords) entered by users or found in the content on a web page. We also offer tools that suggest synonyms and useful phrases to use as keywords or ad text. These suggestions can improve ad click-through rates and the likelihood of a user becoming a customer of the advertiser.

Traffic estimator. This tool estimates the number of searches and potential costs related to advertising on a particular keyword or set of keywords. These estimates can help advertisers optimize their campaigns.

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

Performance reports. We provide continuous, timely reporting of the effectiveness of each ad campaign.

Multiple payment options. We accept credit and debit cards and, for selected advertisers, we offer several options for credit terms and monthly invoicing. We accept payments in 48 currencies.

AdWords discounter. This feature gives advertisers the freedom to increase their maximum CPCs because it automatically adjusts pricing so that they never pay more than one cent over the next highest bid. The AdWords discounter is described in detail below under the heading Technology Advertising Technology Google AdWords Action System.

For larger advertisers, we offer additional services that help to maximize returns on their Internet marketing investments and improve their ability to run large, dynamic campaigns. These include:

Creative maximization. Our AdWords specialists help advertisers select relevant keywords and create more effective ads. This can improve advertisers ability to target customers and to increase the click-through rates and conversion rates for their ads.

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

Bulk posting. We assist businesses in launching and managing large ad campaigns with hundreds or even thousands of targeted keywords.

Dedicated client service representatives. These staff members continuously look for ways to better structure their clients campaigns and to address the challenges large advertisers face.

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Google AdSense

Our Google AdSense program enables the web sites in our Google Network to serve targeted ads from our AdWords advertisers. Targeting can be based on search results or on web content. We share most of the revenue generated from ads shown by a member of the Google Network with that member. Most of the web sites that make up the Google Network sign up with us online, under agreements with no required term. We also engage in direct selling efforts to convince web sites with significant traffic to join the Google Network, under agreements that vary in duration. For our network members, we offer:

Google AdSense for search. For Internet companies with potentially large search audiences, we offer Google AdSense for search. Web sites use AdSense for search to generate additional revenue by serving relevant AdWords ads targeted to search results. Because we also offer to license our web search technology along with Google AdSense for search, companies without their own search service can offer Google WebSearch to improve the usefulness of their web sites for their users while increasing their revenue.

Google AdSense for content. Google AdSense for content enables web sites to generate revenue from advertising by serving relevant AdWords ads targeted to web content. Our automated technology analyzes the meaning of web content and serves relevant advertising, usually in a fraction of a second. We believe that some of the best content on the web comes from web sites aiming to reach small but highly targeted audiences. AdSense for content can help these web sites offset some of their publishing costs. We believe this may help them continue to publish by tapping into the value of their content. There is no charge for web sites to participate in our AdSense for content program. Using our automated sign-up process, web sites can quickly display AdWords ads on their sites. We share the majority of the revenues generated from click-throughs on these ads with the Google Network members that display the ads. For web sites with more than 20 million page views per month, we provide customization services.

Google Search Appliance

We provide our search technology for use within enterprises through the Google Search Appliance (GSA). The GSA is a complete software and hardware solution that companies can easily implement to extend Google s search performance to their internal or external information. The GSA can often be installed and launched in as little as one day. It leverages our search technology to identify the most relevant pages on intranet and public web sites, making it easy for people to find the information they need. The GSA offers several useful features, including automated spell-checking, cached pages, dynamic snippets, indented results and automatic conversion of Microsoft Office and PDF files to HTML. The GSA is available in three models: the GB-1001, for departments and mid-sized companies; the GB-5005, for dedicated, high-priority search services such as customer-facing web sites and company-wide intranet applications; and the GB-8008, for centralized deployments supporting global business units. List prices for our GSA models start at $32,000 for the GB-1001, $230,000 for the GB-5005 and $525,000 for the GB-8008.

Technology

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

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We provide our web search and targeted advertising technology using a large network of commodity computers running custom software developed in-house. Some elements of our technology include:

Web Search Technology

Our web search technology uses a combination of techniques to determine the importance of a web page independent of a particular search query and to determine the relevance of that page to a particular search query. We do not explain how we do ranking in great detail because some people try to manipulate our search results for their own gain, rather than in an attempt to provide high-quality information to users.

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

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

Advertising Technology

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

Google AdWords Auction System. We use the Google AdWords auction system to enable advertisers to automatically deliver relevant, targeted advertising. Every search query we process involves the automated execution of an auction, resulting in our advertising system often processing hundreds of millions of auctions per day. To determine whether an ad is relevant to a particular query, this system weighs an advertiser s willingness to pay for prominence in the ad listings (the CPC) and interest from users in the ad as measured by the click-through rate and other factors. If an ad does not attract user clicks, it moves to a less prominent position on the page, even if the advertiser offers to pay a high amount. This prevents advertisers with irrelevant ads from squatting in top positions to gain exposure. Conversely, more relevant, well-targeted ads that are clicked on frequently move up in ranking, with no need for advertisers to increase their bids. Because we are paid only when users click on ads, the AdWords ranking system aligns our interests equally with those of our advertisers and our users. The more relevant and useful the ad, the better for our users, for our advertisers and for us.

The AdWords auction system also incorporates our AdWords discounter, which automatically lowers the amount advertisers actually pay to the minimum needed to maintain their ad position. Consider a situation where there are three advertisers Pat, Betty and Joe each bidding on the same keyword for ads that will be displayed on Google.com. These advertisers have ads with equal click-through rates and bid $1.00 per click, $0.60 per click and $0.50 per click, respectively. With our AdWords discounter, Pat would occupy the first ad position and pay only $0.61 per click, Betty would occupy the second ad position and pay only $0.51 per click, and Joe would

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occupy the third ad position and pay the minimum bid of $0.05 per click. The AdWords discounter saves money for advertisers by minimizing the price they pay per click, while relieving them of the need to constantly monitor and adjust their CPCs. Advertisers can experience greater discounts through the application of our smart pricing technology introduced in April 2004. This technology can reduce the price of clicks for ads served across the Google Network based on the expected value of the click to the advertiser.

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

Large-Scale Systems Technology

Our business relies on our software and hardware infrastructure, which provides substantial computing resources at low cost. We currently use a combination of off-the-shelf and custom software running on clusters of commodity computers. Our considerable investment in developing this infrastructure has produced several key benefits. It simplifies the storage and processing of large amounts of data, eases the deployment and operation of large-scale global products and services and automates much of the administration of large-scale clusters of computers.

Although most of this infrastructure is not directly visible to our users, we believe it is important for providing a high-quality user experience. It enables significant improvements in the relevance of our search and advertising results by allowing us to apply superior search and retrieval algorithms that are computationally intensive. We believe the infrastructure also shortens our product development cycle and allows us to pursue innovation more cost effectively.

We constantly evaluate new hardware alternatives and software techniques to help further reduce our computational costs. This allows us to improve our existing products and services and to more easily develop, deploy and operate new global products and services.

Sales and Support

We have put significant effort into developing our sales and support infrastructure. We maintain 21 sales offices in 11 countries, and we deploy specialized sales teams across 18 vertical markets. We bring businesses into our advertising network through both online and direct sales channels. In all cases, we use technology and automation wherever possible to improve the experience for our advertisers and to grow our business cost-effectively. The vast majority of our advertisers use our automated online AdWords program to establish accounts, create ads, target users and launch and manage their advertising campaigns. Our direct advertising sales team focuses on attracting and supporting companies around the world with sizeable advertising budgets. Our AdSense program follows a similar model. Most of the web sites in the Google Network sign up for AdSense using an automated online process. Our direct sales force focuses on building AdSense relationships with leading Internet companies. Our global support organization concentrates on helping our advertisers and Google Network members get the most out of their relationships with us.

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Marketing

We have always believed that building a trusted, highly-recognized brand begins with providing high-quality products and services that make a notable difference in people s lives. Our user base has grown primarily by word-of-mouth, which can work very well for products that inspire a high level of user loyalty because users are likely to share their positive experiences with their friends and families. Our early marketing efforts focused on feeding this word-of-mouth momentum and used public relations efforts to accelerate it. Through these efforts and people s increased usage of Google worldwide, we have been able to build our brand with relatively low marketing costs as a percentage of our revenues. Today, we use the quality of our own products and services as our most effective marketing tool, and word-of-mouth momentum continues to drive consumer awareness and user loyalty worldwide. We do not promote products before they are successful for our users, preferring to test them until they achieve broad acceptance. We also engage in targeted marketing efforts, such as those we deliver to our advertising clients, designed to inform potential advertisers, Google Network members and enterprises of the benefits they can achieve through Google. In addition, we sponsor industry conferences and have promoted the distribution of the Google Toolbar to Internet users in order to make our search services easier to access.

Competition

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 and Yahoo.

We also 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. 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. In addition to Internet companies, we face competition from companies that offer traditional media advertising opportunities.

We compete to attract and retain relationships with users, advertisers and web sites. The bases on which we compete differ among the groups.

Users. We compete to attract and retain users of our search and communication products and services. Most of the products and services we offer to users are free, so we do not compete on price. Instead, we compete in this area on the basis of the relevance and usefulness of our search results and the features, availability and ease of use of our products and services.

Advertisers. We compete to attract and retain advertisers. We compete in this area principally on the basis of the return on investment realized by advertisers using our AdWords program. We also compete based on the quality of customer service, features and ease of use of AdWords.

Web sites. We compete to attract and retain web sites as members of our Google Network based on the size and quality of our advertiser base, our ability to help our Google Network members generate revenues from advertising on their web sites and the terms of agreements with our Google Network members.

We believe that we compete favorably on the factors described above. However, our industry is evolving rapidly and is becoming increasingly competitive. Larger, more established companies than us are increasingly focusing on search businesses that directly compete with us.

Intellectual Property

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

Google is a registered trademark in the U.S. and several other countries. Our unregistered trademarks include: AdSense, AdWords, Blogger, Froogle, Gmail, I m Feeling Lucky and PageRank.

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

Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

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

Government Regulation

We are subject to a number of foreign and domestic laws that affect companies conducting business on the Internet. In addition, because of the increasing popularity of the Internet and the growth of online services, laws relating to user privacy, freedom of expression, content, advertising, information security and intellectual property rights are being debated and considered for adoption by many countries throughout the world.

In the U.S., laws relating to the liability of providers of online services for activities of their users are currently being tested by a number of claims, which include actions 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 users. In addition, several other federal laws could have an impact on our business. 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 pornography laws under certain circumstances.

In addition, the application 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 and restrict our ability to deliver services to our users.

At least two states have recently introduced proposed legislation that could interfere with or prohibit our Gmail free advertising-supported web mail service, which was recently announced as a test service. The legislation, as originally proposed in California and Massachusetts, would make it more difficult for us to operate or would prohibit the aspects of the service that process the contents of users e-mail messages for the purpose of identifying and displaying ads relevant to that content. While the California legislation has been modified since being introduced so that it does not inhibit the operation of the Gmail service, the legislation has not been finally adopted. If this legislation is adopted as originally proposed, or other similar legislation is adopted, it could prevent us from implementing the Gmail service in the affected states. The company worked with legislators in the state in which the proposed legislation was amended to craft legislation that is narrowly tailored to privacy concerns. Google intends to address privacy related concerns and future proposed legislation by educating the public and legislators about the Google products and services, and by working closely with legislators to craft laws that are not overly broad.

We are also subject to international laws associated with data protection in Europe and elsewhere and the interpretation and application of data protection laws is still uncertain and in flux. In addition, because our services are accessible worldwide, foreign jurisdictions may claim that we are required to comply with their laws.

Culture and Employees

We take great pride in our company culture and embrace it as one of our fundamental strengths. We remain steadfast in our commitment to constantly improve the technology we offer to our users and advertisers and to web sites in the Google Network. We have assembled what we believe is a highly talented group of employees. Our culture encourages the iteration of ideas to address complex technical challenges. In addition, we embrace individual thinking and creativity. As an example, we encourage our engineers to devote 20% of their time to work on independent projects. Many of our significant new products have come from these independent projects, including Google News, AdSense for content and Orkut.

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

At June 30, 2004, we had 2,292 employees, consisting of 705 in research and development, 1,141 in sales and marketing and 446 in general and administrative. All of Google s employees, except temporary employees and contractors, are also equityholders, with significant collective employee ownership. As a result, many employees are highly motivated to make the company more successful.

Legal Proceedings

On August 9, 2004, we and Yahoo entered into a settlement agreement resolving two disputes that had been pending between us. The first dispute concerned a lawsuit filed by Yahoo s wholly-owned subsidiary, Overture Services, Inc., against us in April 2002 asserting that certain services infringed Overture s U.S. Patent No. 6,269,361. In our court filings, we denied that we infringed the patent and alleged that the patent was invalid and unenforceable.

The second dispute concerned a warrant held by Yahoo to purchase 3,719,056 shares of our stock in connection with a June 2000 services agreement. Pursuant to a conversion provision in the warrant, in June 2003 we issued 1,229,944 shares to Yahoo. Yahoo contended it was entitled to a greater number of shares, while we contended that we had fully complied with the terms of the warrant.

As part of the settlement, Overture will dismiss its patent lawsuit against us and has granted us a fully-paid, perpetual license to the patent that was the subject of the lawsuit and several related patent applications

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held by Overture. The parties also mutually released any claims against each other concerning the warrant dispute. In connection with the settlement of these two disputes, we issued to Yahoo 2,700,000 shares of Class A common stock.

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. A court in France has held us liable for allowing advertisers to select certain trademarked terms as keywords. We have appealed this decision. We were also subject to two lawsuits in Germany on similar matters where one court preliminarily reached a similar conclusion as the court in France while another court held that we are not liable for the actions of our advertisers prior to notification of trademark rights. We are litigating similar issues in other cases in the U.S., France, Germany and Italy. 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.

From time to time, we may also become a party to other litigation and subject to claims incident to the ordinary course of business. For example, because our products and services link to or host material in which others allege to own copyrights, from time to time third parties have asserted copyright infringement or related claims against us. 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. Regardless of the outcome, litigation can have an adverse impact on us because of defense costs, diversion of management resources and other factors.

Facilities

We lease approximately 506,000 square feet of space in our headquarters in Mountain View, California under a lease that expires in 2012. We also lease additional research and development, sales and support offices in Amsterdam, Atlanta, Bangalore, Boston, Chicago, Dallas, Denver, Detroit, Dublin, Hamburg, Hyderabad, London, Los Angeles, Madrid, Milan, Mountain View, New York, Paris, Santa Monica, Seattle, Sydney, Tokyo, Toronto and Zurich. We operate data centers in the United States and the European Union pursuant to various lease agreements and co-location arrangements.

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MANAGEMENT

Executive Officers and Directors

Our executive officers and directors, and their ages and positions as of June 30, 2004 are as follows:

Name	Age	Position
Eric Schmidt	49	Chairman of the Executive Committee, Chief Executive Officer and Director
Sergey Brin	30	President of Technology, Assistant Secretary and Director
Larry Page	31	President of Products, Assistant Secretary and Director
Omid Kordestani	40	Senior Vice President of Worldwide Sales and Field Operations
Wayne Rosing	57	Vice President of Engineering
David C. Drummond	41	Vice President of Corporate Development, Secretary and General Counsel
George Reyes	50	Vice President and Chief Financial Officer
Jonathan J. Rosenberg	42	Vice President of Product Management
Shona L. Brown	38	Vice President of Business Operations
L. John Doerr	53	Director
John L. Hennessy	51	Director
Arthur D. Levinson	54	Director
Michael Moritz	49	Director
Paul S. Otellini	53	Director
K. Ram Shriram	47	Director

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

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

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

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Omid Kordestani has served as our Senior Vice President of Worldwide Sales and Field Operations since May 1999. Prior to joining us, from 1995 to 1999, Omid served as Vice President of Business Development at Netscape, an Internet software and services company. Omid holds a Masters of Business Administration degree from Stanford University and a Bachelor of Science degree in electrical engineering from San Jose State University.

Wayne Rosing has served as our Vice President of Engineering since November 2000. From November 1996 to April 2000, Wayne served as Chief Technology Officer and Vice President of Engineering at Caere Corporation, an optical character recognition software company. From 1985 to 1994, Wayne served in various executive engineering positions at Sun Microsystems. From 1992 to 1994, Wayne headed the team that developed the technology base for Java as the president of FirstPerson, and, from 1990 through 1991, was President of Sun Microsystems Laboratories, both subsidiaries of Sun Microsystems. From 1985 to 1990, Wayne was a Vice President of Engineering at Sun Microsystems and, from 1980 to 1985, he was director of engineering for the Apple Computer Lisa and Apple II divisions. Prior to 1980, he held management positions at Digital Equipment Corporation and Data General.

David C. Drummond has served as our Vice President of Corporate Development, Secretary and General Counsel since February 2002. Prior to joining us, from July 1999 to February 2002, David served as Chief Financial Officer of SmartForce, an educational software applications company. Prior to that, David was a partner at the law firm of Wilson Sonsini Goodrich & Rosati, our outside counsel. David holds a J.D. from Stanford University and a Bachelor of Arts degree in history from Santa Clara University. On July 20, 2004, David was advised by the staff of the SEC that it intends to recommend that the SEC bring a civil injunction action against David, alleging violation of federal securities laws, including the anti-fraud provisions. The SEC s recommendation arises out of David s prior employment as Chief Financial Officer of SmartForce, and involves certain disclosure and accounting issues relating to SmartForce s financial statements. None of the allegations involve Google. The staff of the SEC has, in accordance with its customary practices, offered David the opportunity to make a Wells Submission setting forth why David believes that such action should not be brought. David intends to make this submission.

George Reyes has served as our Chief Financial Officer since July 2002. Prior to joining us, George served as Interim Chief Financial Officer for ONI Systems, a provider of optical networking equipment, from February 2002 until June 2002. From April 1999 to September 2001, George served as Vice President and Treasurer of Sun Microsystems, a supplier of networking computing solutions, and as Vice President, Corporate Controller of Sun Microsystems from April 1994 to April 1999. George is also a director of BEA Systems, an application infrastructure software company, and Symantec, an information security company. George holds a Masters of Business Administration degree from Santa Clara University and a Bachelor of Arts degree in accounting from the University of South Florida.

Jonathan J. Rosenberg has served as our Vice President of Product Management since February 2002. Prior to joining us, from October 2001 to February 2002, Jonathan served as Vice President of Software of palmOne, a provider of handheld computer and communications solutions. From November 2000 until October 2001, Jonathan was not formally employed. From March 1996 to November 2000, Jonathan held various executive positions at Excite@Home, an Internet media company, most recently as its Senior Vice President of Online Products and Services. Jonathan holds a Masters of Business Administration degree from the University of Chicago and a Bachelor of Arts degree with honors in economics from Claremont McKenna College.

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

L. John Doerr has served as a member of our board of directors since May 1999. John has been a General Partner of Kleiner Perkins Caufield & Byers, a venture capital firm, since August 1980. John is also a director of

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Amazon.com, an Internet retail company, drugstore.com, an Internet retail company, Homestore.com, a provider of real estate media and technology solutions, Intuit, a provider of business and financial management software, palmOne, a provider of handheld computer and communications solutions, and Sun Microsystems, a supplier of networking computing solutions. John holds a Masters of Business Administration degree from Harvard Business School and a Masters of Science degree in electrical engineering and computer science and a Bachelor of Science degree in electrical engineering from Rice University.

John L. Hennessy has served as a member of our board of directors since April 2004. Since September 2000, John has served as the President of Stanford University. From 1994 to August 2000, John held various positions at Stanford, including Dean of the Stanford University School of Engineering and Chair of the Stanford University Department of Computer Science. John has been a member of the board of directors of Cisco Systems, a networking equipment company, since January 2002 and chairman of the board of directors of Atheros Communications, a wireless semiconductor company since May 1998. John holds a Master s degree and Doctoral degree in computer science from the State University of New York, Stony Brook and a Bachelor of Science degree in electrical engineering from Villanova University.

Arthur D. Levinson has served as a member of our board of directors since April 2004. Since 1995, Art has served as a member of the board of directors of Genentech, a biotechnology company, and has served as its Chairman and Chief Executive Officer since September 1999. Prior to 1999 Art held various executive positions at Genentech, including Senior Vice President of R&D. Art has been a member of the board of directors of Apple Computer, a computer hardware and software company, since 2000. Art was a Postdoctoral Fellow in the Department of Microbiology at the University of California, San Francisco. Art holds a Ph.D. in biochemistry from Princeton University and a Bachelor of Science degree in molecular biology from the University of Washington.

Michael Moritz has served as a member of our board of directors since May 1999. Michael has been a General Partner of Sequoia Capital, a venture capital firm, since 1986. Michael has served as a member of the board of directors of Saba Software, a provider of human capital development and management solutions, since August 1998 and as a member of the board of directors of Flextronics International, a contract electronics manufacturer, since July 1993. Michael has also served as a member of the board of directors of RedEnvelope, an online retailer of upscale gifts, since July 1999 and as its Chairman of the Board since April 2003. Michael holds a Masters of Arts degree from Christ Church, University of Oxford.

Paul S. Otellini has served as a member of our board of directors since April 2004. Paul has been a member of the board of directors of Intel, a semiconductor manufacturing company, and has served as its President and Chief Operating Officer since 2002. From 1974 to 2002, Paul held various positions at Intel, including Executive Vice President and General Manager of Intel Architecture Group and Executive Vice President and General Manager of Sales and Marketing Group. Paul holds a Master s degree from the University of California at Berkeley and a Bachelors degree in economics from the University of San Francisco.

K. Ram Shriram has served as a member of our board of directors since September 1998. Since January 2000, Ram has served as managing partner of Sherpalo, an angel venture investment company. Prior to that, from August 1998 to September 1999, Ram served as Vice President of Business Development at Amazon.com, an Internet retail company. Prior to that, Ram served as President at Junglee, a provider of database technology, acquired by Amazon.com in 1998. Ram was an early member of the Netscape executive team. Ram holds a Bachelor of Science degree from the University of Madras, India.

Board of Directors

Our bylaws provide that the authorized size of our board of directors, which is currently nine (9) members, is to be determined from time to time by resolution of the board of directors. Our current directors were elected in the manner described in our certificate of incorporation. The holders of a majority of our preferred stock, voting as a single class, elected L. John Doerr and Michael Moritz to the board of directors, and the holders of a

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majority of our common stock, voting as a single class, elected Sergey Brin, Larry Page and K. Ram Shriram to the board of directors. John Hennessy, Arthur Levinson and Paul Otellini were appointed by the board of directors to fill vacancies created by the increase in the size of the board of directors. The remaining director, Eric Schmidt, was elected pursuant to a voting agreement that we entered into with certain holders of our common stock and holders of our preferred stock, which provides for the election of a joint director nominated by a majority of the preferred stock and by a majority of the common stock held by Sergey and Larry. Upon the closing of this offering, these board representation rights will terminate and none of our stockholders will have any special rights regarding the election or designation of board members.

Committees of the Board of Directors

Our board of directors has established four committees: an audit committee, a leadership development and compensation committee, a corporate governance and nominating committee and an executive committee.

Audit Committee

Our audit committee s main function will be to oversee our accounting and financial reporting processes, internal systems of control, independent auditor relationships and the audits of our financial statements. This committee s responsibilities will include the following:

Selecting and hiring our independent auditors.

Evaluating the qualifications, independence and performance of our independent auditors.

Approving the audit and non-audit services to be performed by our independent auditors.

Reviewing the design, implementation, adequacy and effectiveness of our internal controls and our critical accounting policies.

Overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters.

Reviewing with management and our auditors any earnings announcements and other public announcements regarding our results of operations.

Preparing the report that the SEC requires in our annual proxy statement.

Our audit committee is comprised of Ram, Paul and Michael, each of whom is a non-employee member of our board of directors. Paul will be our audit committee financial expert as currently defined under SEC rules. Ram will be the chairman of our audit committee. Our board of directors has determined that each of the directors serving on our audit committee is independent within the meaning of the rules of the SEC and the listing standards of The Nasdaq Stock Market. We intend to comply with future audit committee requirements as they become applicable to us.

Leadership Development and Compensation Committee

Our leadership development and compensation committee s purpose will be to assist our board of directors in determining the development plans and compensation of our senior management, directors and employees and recommend these plans to our board. This committee s responsibilities will include:

- Reviewing the employee wide compensation philosophy.
- Reviewing the budget and structure of our employee wide variable cash compensation plans.
- Reviewing the budget and structure of our employee wide equity based compensation plans.
- Periodically reviewing the leadership development plans for the Company.
- Reviewing and recommending compensation and benefit plans for our executive officers and board members.

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Reviewing the terms of offer letters and employment agreements and arrangements with our officers.

Setting performance goals for our officers and reviewing their performance against these goals.

Periodically reviewing executive succession plans and executive education and development plans.

Evaluating the competitiveness of our executive compensation plans.

Independently accessing externally provided market information on industry compensation practices.

Preparing the report that the SEC requires in our annual proxy statement.

Our Leadership Development and Compensation Committee consists of John Doerr and Art, each of whom is a non-employee member of our board of directors. Our Leadership Development and Compensation Committee does not have a chairman. Each member of our Leadership Development and Compensation Committee will be an outside director as that term is defined in 162(m) of the Internal Revenue Code of 1986, as amended, and a non-employee director within the meaning of Rule 16b-3 of the rules under the Securities Exchange Act of 1934. Our board of directors has determined that each of the directors serving on our Leadership Development and Compensation Committee is independent within the listing standards of The Nasdaq Stock Market.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee s purpose will be to assist our board by identifying individuals qualified to become members of our board of directors consistent with criteria set by our board and to develop our corporate governance principles. This committee s responsibilities will include:

Evaluating the composition, size and governance of our board of directors and its committees and make recommendations regarding future planning and the appointment of directors to our committees.

Establishing a policy for considering stockholder nominees for election to our board of directors.

Recommending ways to enhance communications and relations with our stockholders.

Evaluating and recommending candidates for election to our board of directors.

Overseeing our board of directors performance and self-evaluation process and developing continuing education programs for our directors.

Reviewing our corporate governance principles and providing recommendations to the board regarding possible changes.

Reviewing and monitoring compliance with our code of ethics and our insider trading policy.

Our Corporate Governance and Nominating Committee consists of John Doerr and John Hennessy, each of whom is a non-employee member of our board of directors. Our board of directors has determined that each of the directors serving on our Corporate Governance and Nominating Committee is independent within the existing standards of The Nasdaq Stock Market.

Executive Committee

The Executive Committee will serve as an administrative committee of the board that is available to facilitate the approval of certain corporate actions that do not require consideration by the full board.

Chairman of the Board

Our current charter documents provide that the chairman of our board of directors may not be an employee or officer of our company, and may not have been an employee or officer for the last three years, unless the appointment is approved by two-thirds of the members of our board of directors. We currently do not have a chairman of our board of directors.

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Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is an officer or employee of our company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Director Compensation

We do not currently compensate our directors in cash for their service as members of our board of directors. We do reimburse our directors for reasonable expenses in connection with attendance at board and committee meetings. Additionally, our directors are eligible to receive and have received stock options under our stock plans.

In April 2004, our newly elected directors, John, Art and Paul each received an option to purchase 65,000 shares of common stock subject to vesting over a term of five years and otherwise pursuant to the terms of our 2000 Stock Plan and 2003 Stock Plan (No. 2).

Executive Compensation

The following table sets forth information regarding the compensation that we paid to our Chief Executive Officer and each of our four other most highly compensated executive officers during the year ended December 31, 2003. We refer to these officers in this prospectus as the named executive officers.

Summary Compensation Table

	Annual Compensation		Long Term Compensation Awards	
Name and Principal Position	**Salary**	**Bonus**(1)(2)	**Securities Underlying Options**	**All Other Compensation**
Eric Schmidt, Chief Executive Officer and Director	$ 250,000	$ 301,556		$ 2,894(3)
Sergey Brin, President of Technology and Director	150,000	206,556		14,440(4)
Larry Page, President of Products and Director	150,000	206,556		11,327(5)
Omid Kordestani, Senior Vice President of Worldwide Sales and Field Operations	175,000	394,456(6)		2,704(7)
Wayne Rosing, Vice President of Engineering	175,000	151,314		2,704(8)

(1)

We generally pay bonuses in the year following the year in which they were earned. Unless otherwise noted, bonus amounts presented represent employee performance bonuses and are reported for the year in which they were earned, though they may have been paid in the following year.

(2) Each of the bonuses presented include a holiday bonus in the amount of $1,556.

(3) Includes $2,200 contributed to Eric s account under our 401(k) plan and $694 of insurance premiums paid for his benefit.

(4) Includes $14,008 of engineering patent awards and $432 of insurance premiums paid for Sergey s benefit.

(5) Includes $10,895 of engineering patent awards and $432 of insurance premiums paid for Larry s benefit.

(6) Includes $347,900 of sales commissions.

(7) Includes $2,200 contributed to Omid s account under our 401(k) plan and $504 of insurance premiums paid for his benefit.

(8) Includes $2,200 contributed to Wayne s account under our 401(k) plan and $504 of insurance premiums paid for his benefit.

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Stock Option Grants in Last Fiscal Year

The following table sets forth information regarding the granting of stock options to the named executive officers during 2003. The percentage of total options set forth below is based on an aggregate of 18,681,260 options granted to employees for the year ended December 31, 2003.

Option/SAR Grants in Last Fiscal Year

	Individual Grants				Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term	
Name and Principal Position	**Number of Shares Common Stock**	**Percentage of Total Options Granted to Employees in 2003**	**Exercise or Base Price Per Share**	**Expiration Date**	**5%**	**10%**
Eric Schmidt Chief Executive Officer and Director						
Sergey Brin President of Technology and Director						
Larry Page President of Products and Director						
Omid Kordestani Senior Vice President of Worldwide Sales and Field Operations						
Wayne Rosing(1) Vice President of Engineering	128,000	0.7%	$ 5.00	7/18/13	$ 17,082,374	$ 27,579,918

(1) Shares subject to this option will begin vesting on November 23, 2004 and will vest as follows: (i) 15 percent on the one year anniversary of the vesting commencement date, (ii) 17.5 percent in the second year of vesting, (iii) 20 percent in the third year of vesting, (iv) 22.5 percent in the fourth year of vesting, and (v) 25 percent in the fifth year of vesting; provided that shares vesting in each of the years following the one year anniversary of Wayne s vesting commencement date will vest in the respective amounts described above ratably at the end of each month of Wayne s continued employment with us. Wayne s option was granted at the fair market value of our Class B common stock as determined by our board of directors on the date of grant. Wayne s option has a term of 10 years, subject to earlier termination in certain events related to the cessation of Wayne s employment with us.

The amounts shown in the table above for Wayne as potential realizable value represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These amounts represent assumed rates of appreciation in the value of our common stock from the fair market value on the date of grant. Potential realizable values in the table above are calculated by:

Multiplying the number of shares of our common stock subject to the option by our initial public offering price per share of $85.00.

Assuming that the aggregate stock value derived from that calculation compounds at the annual 5% or 10% rates shown in the table for the entire 10-year term of the option.

Subtracting from that result the total option exercise price.

The 5% and 10% assumed rates of appreciation are suggested by the rules of the SEC and do not represent our estimate or projection of the future common stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of our common stock.

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Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table provides option exercise information for the executive offices named in the summary compensation table. The table shows the number of shares acquired and the value realized upon exercise of stock options during 2003 and the exercisable and unexercisable options held at December 31, 2003. The Value Realized and the Value of Unexercised In-the-Money Options shown in the table represents an amount equal to the difference between our initial public offering price of $85.00 per share and the option exercise price, multiplied by the number of shares acquired on exercise and the number of unexercised in-the-money options. These calculations do not take into account the effect of any taxes that may be applicable to the option exercises.

Name and Principal Position	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End	
			Exercisable(1)	Unexercisable	Exercisable	Unexercisable
Eric Schmidt Chairman and Chief Executive Officer						
Sergey Brin President of Technology and Director						
Larry Page President of Products and Director						
Omid Kordestani(2) Senior Vice President of Worldwide Sales and Field Operations	80,000	$ 7,196,000	1,420,000		$ 120,300,000	
Wayne Rosing(3) Vice President of Engineering			148,000		11,934,000	

(1) All of our stock options granted to U.S. residents may be exercised prior to their vesting. Upon the exercise of an option prior to vesting, the optionee is required to enter into a restricted stock purchase agreement with us that provides that we have a right to repurchase the shares purchased upon exercise of the option at the original exercise price; provided, however, that our right to repurchase these shares will lapse in accordance with the original vesting schedule included in the optionee s option agreement.

(2) Omid s option was vested as to 669,666 shares Class B common stock and unvested as to 750,334 shares at December 31, 2003.

(3) Wayne s option was vested as to 8,333 shares Class B common stock and unvested as to 139,667 shares at December 31, 2003.

Employee Benefit Plans

1998 Stock Plan, 2003 Stock Plan, 2003 Stock Plan (No. 2) and 2003 Stock Plan (No. 3)

Our 1998 Stock Plan was adopted by our board of directors in September 1998 and subsequently approved by our stockholders. At June 30, 2004, options to purchase a total of 6,295,431 shares of Class B common stock were outstanding under the 1998 Stock Plan at a weighted average exercise price of $0.29 per share.

Our 2003 Stock Plan was adopted by our board of directors in February 2003 and subsequently approved by our stockholders. At June 30, 2004, options to purchase a total of 2,756,359 shares of Class A common stock were outstanding under the 2003 Stock Plan at a weighted average exercise price of $1.23 per share.

Our 2003 Stock Plan (No. 2) was adopted by our board of directors in July 2003 and subsequently approved by our stockholders. At June 30, 2004, options to purchase a total of 3,875,653 shares of Class B common stock were outstanding under the 2003 Stock Plan (No. 2) at a weighted average exercise price of $6.39 per share.

Our 2003 Stock Plan (No. 3) was adopted by our board of directors in July 2003, and it was subsequently approved by our stockholders. At June 30, 2004, options to purchase a total of 3,494,095 shares of Class A common stock were outstanding under the 2003 Stock Plan (No. 3) at a weighted average exercise price of $15.95 per share.

Our plans generally provide for the grant of options and stock purchase rights. Incentive stock options within the meaning of Section 422 of the Internal Revenue Code may be granted only to our employees or employees of our subsidiaries. Stock purchase rights may only be granted under the 1998 Stock Plan to our employees, officers, directors, consultants, independent contractors and advisors and those of any of our subsidiaries. Nonstatutory stock options may be granted to our employees, officers, directors, consultants, independent contractors and advisors and those of any of our subsidiaries. Consultants, independent contractors and advisors are only eligible to receive awards if they render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction.

Our board of directors administers the plans. The administrator has the authority to determine the terms and conditions of the options and stock purchase rights granted under these plans, and may reduce the exercise price of an option to the then current fair market value of our common stock or institute a program whereby outstanding options are exchanged for options with a lower exercise price.

The maximum term of the options under these plans is ten years. The awards granted under these plans may not be transferred in any manner other than by will or by the laws of descent and distribution and may be exercised during the lifetime of the optionee only by the optionee.

These plans provide that in the event of our merger with or into another corporation, or a sale of substantially all of our assets, the successor corporation or its parent or subsidiary will assume or substitute each stock purchase right and option. If the outstanding stock purchase rights or options are not assumed or substituted, they will become fully vested and exercisable for a 15-day period from the date the administrator provides notice of such transaction and shall terminate at the end of such 15-day period.

Generally, in the event of our change in control, the successor corporation will assume each option or replace it with a cash incentive program that preserves the spread associated with the option. If the outstanding options are not assumed or substituted after a change in control, the options vesting will accelerate in full.

2000 Stock Plan

Our 2000 Stock Plan was adopted by our board of directors in November 2000, and it was subsequently approved by our stockholders. At June 30, 2004, options to purchase a total of 285,000 shares of Class B common stock were outstanding under the 2000 Stock Plan at a weighted average exercise price of $4.79 per share. The terms of our 2000 Stock Plan are substantially the same as the terms described above, except that the 2000 Stock Plan does not share in the collective authorized share pool applicable to the plans described above.

1999 Stock Option/Stock Issuance Plan

Our 1999 Stock Option/Stock Issuance Plan was assumed by us in connection with our acquisition of Applied Semantics, Inc. in April 2003. At June 30, 2004, options to purchase a total of 24,827 shares of Class A common stock were outstanding under the 1999 Stock Option/Stock Issuance Plan at a weighted average exercise price of $0.38 per share. At June 30, 2004, no shares of Class A common stock remained available for future issuance under our 1999 Stock Option/Stock Issuance Plan.

2003 Equity Incentive Plan

Our 2003 Equity Incentive Plan was assumed by us in connection with our acquisition of Ignite Logic, Inc. in April 2004. At June 30, 2004, options to purchase a total of 1,292 shares of Class A common stock were

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outstanding under the 2003 Equity Incentive Plan at a weighted average exercise price of $28.78 per share. At June 30, 2004, no shares of Class A common stock remained available for future issuance under our 2003 Equity Incentive Plan.

2004 Stock Plan

Our board of directors adopted the 2004 Stock Plan in April 2004, and it was subsequently approved by our stockholders. The 2004 Stock Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Code, to our employees and nonstatutory stock options, restricted stock, stock appreciation rights, performance units, performance shares, restricted stock units and other stock based awards to our employees, directors, and consultants. No awards have yet been issued pursuant to the 2004 Stock Plan.

Number of Shares of Common Stock Available Under the 2004 Stock Plan. A total of 9,499,500 shares of our Class A common stock were reserved for issuance pursuant to our 2004 Stock Plan. The number of shares reserved for issuance under the 2004 Stock Plan will be reduced by the number of shares subject to options that are granted after December 31, 2003 under the Company s 1998 Stock Plan, 1999 Stock Option/Stock Issuance Plan, 2000 Stock Plan, 2003 Stock Plan, 2003 Stock Plan (No. 2) and 2003 Stock Plan (No. 3).

If an option, grant of restricted stock, stock appreciation right, performance unit, performance share, restricted stock unit or other stock based award (each, an award) expires or is terminated or canceled without having been exercised or settled in full, is forfeited back to or repurchased by the Company, the terminated portion of the award (or forfeited or repurchased shares subject to the award) will become available for future grant or sale under our plan (unless our plan has terminated). Shares are not deemed to be issued under the 2004 Stock Plan with respect to any portion of an award that is settled in cash. If the exercise or purchase price of an award is paid for through the tender of shares, or withholding obligations are met through the tender or withholding of shares, those shares tendered or withheld will again be available for issuance under the 2004 Stock Plan. However, shares that have actually been transferred to a financial institution or other person or entity selected by the plan administrator, will not be returned to the 2004 Stock Plan, will not be returned to our plan and will not be available for future distribution under our plan.

Administration of the 2004 Stock Plan. Our board of directors, or one or more committees appointed by our board, will administer our 2004 Stock Plan. In the case of awards intended to qualify as performance based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, the committee will consist of two or more outside directors within the meaning of Section 162(m). The administrator has the power to determine the terms of the awards, including the exercise price (which may be changed by the administrator after the date of grant), the number of shares subject to each award, the exercisability of the awards and the form of consideration payable upon exercise. The administrator also has the power to implement an award exchange program, an award transfer program, whereby awards may be transferred to a financial institution or other person or entity selected by the plan administrator, and a program through which participants may reduce cash compensation payable in exchange for awards, and to create other stock based awards that are valued in whole or in part by reference to (or are otherwise based on) shares of our Class A Common Stock (or the cash equivalent of such shares).

Options. A stock option is the right to purchase shares of our common stock at a fixed exercise price for a fixed period of time. The administrator will determine the exercise price of options granted under our 2004 Stock Plan, but with respect to nonstatutory stock options intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code and all incentive stock options, the exercise price generally must be at least equal to the fair market value of our common stock on the date of grant. After termination of one of our employees, directors or consultants, he or she may exercise his or her option for the period of time stated in the option agreement. If termination is due to death or disability, the option generally will remain exercisable for 12 months following such termination. In all other cases, the option generally will remain exercisable for three months. However, an option may never be exercised later than the expiration of its term. The term of an

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incentive stock option may not exceed ten years, except that with respect to any participant who owns 10% of the voting power of all classes of our outstanding capital stock, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the date of grant. The administrator determines the term of all other options.

Restricted Stock. Restricted stock awards are awards of shares of our common stock that vest in accordance with terms and conditions established by the administrator. The administrator may impose whatever conditions to vesting it determines to be appropriate. The administrator will determine the number of shares of restricted stock granted to any employee. The administrator determines the purchase price of any grants of restricted stock and, unless the administrator determines otherwise, shares that do not vest typically will be subject to forfeiture or to our right of repurchase, which we may exercise upon the voluntary or involuntary termination of the purchaser s service with us for any reason including death or disability.

Stock Appreciation Rights. A stock appreciation right is the right to receive the appreciation in the fair market value of our common stock between the exercise date and the date of grant, for that number of shares of our common stock with respect to which the stock appreciation right is exercised. We may pay the appreciation in either cash, in shares of our common stock with equivalent value, or in some combination, as determined by the administrator. The administrator determines the exercise price of stock appreciation rights, the vesting schedule and other terms and conditions of stock appreciation rights; however, stock appreciation rights expire under the same rules that apply to stock options.

Performance Shares and Performance Units. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish performance goals in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. The performance goals may be based upon the achievement of company-wide, divisional or individual goals (including solely continued service), applicable securities laws or other basis determined by the administrator. Payment for performance units and performance shares may be made in cash or in shares of our common stock with equivalent value, or in some combination, as determined by the administrator. Performance units will have an initial dollar value established by the administrator prior to the grant date. Performance shares will have an initial value equal to the fair market value of our common stock on the grant date.

Restricted Stock Units. Restricted stock units are awards of restricted stock, performance shares or performance units that are paid out in installments or on a deferred basis. The administrator determines the terms and conditions of restricted stock units.

Other Stock Based Awards. The administrator has the authority to create awards under the 2004 Stock Plan in addition to those specifically described in the 2004 Stock Plan. These awards must be valued in whole or in part by reference to, or must otherwise be based on, the shares of our Class A common stock (or the cash equivalent of such shares).

Transferability of Awards. Unless the administrator determines otherwise, our 2004 Stock Plan does not allow for the transfer of awards other than by will or by the laws of descent and distribution, and only the participant may exercise an award during his or her lifetime.

Adjustments upon Merger or Change in Control. Our 2004 Stock Plan provides that in the event of a merger with or into another corporation or our change in control, including the sale of all or substantially all of our assets, the successor corporation will assume or substitute an equivalent award for each outstanding award. Unless determined otherwise by the administrator, any outstanding options or stock appreciation rights not assumed or substituted for will be fully vested and exercisable, including as to shares that would not otherwise have been vested and exercisable, for a period of up to 15 days from the date of notice to the optionee. The option or stock appreciation right will terminate at the end of such period. Unless determined otherwise by the

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administrator, any restricted stock, performance shares, performance units, restricted stock units or other stock based awards not assumed or substituted for will be fully vested as to all of the shares subject to the award, including shares which would not otherwise be vested. In the event an outside director is terminated immediately prior to or following a change in control, other than pursuant to a voluntary resignation, the awards he or she received under the 2004 Stock Plan will fully vest and become immediately exercisable.

Amendment and Termination of Our 2004 Stock Plan. Our 2004 Stock Plan will automatically terminate in 2014, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend or terminate our 2004 Stock Plan provided it does not adversely affect any award previously granted under our plan.

Employment Agreements and Change in Control Arrangements

Eric Schmidt Employment Agreement

On March 15, 2001, we entered into an employment agreement with Eric Schmidt, our chief executive officer. The agreement does not provide a specific term for Eric s employment, rather, Eric s employment with us is at-will and may be terminated at any time with or without notice, for any or no reason, at either Eric s or our option. The agreement provides that Eric will receive a base salary of $250,000. Eric was also granted an option to purchase 14,331,708 shares of Class B common stock at an exercise price of $0.30 per share pursuant to this agreement and was permitted to purchase 426,892 shares of Series C preferred stock at a purchase price of $2.3425 per share. Eric may also earn a yearly performance bonus of up to 60% of his base salary if he meets the performance criteria set by our board of directors. If Eric is terminated without cause, he will receive 12 months base salary, six months accelerated vesting of any options and the greater of his performance bonus for the year of termination or for the prior year. If Eric resigns for good reason or if he is terminated without cause within 12 months after our change in control, then instead of the 6 months accelerated vesting of options, he will receive 12 months accelerated vesting of options. For purposes of this employment agreement, our change in control includes our merger or combination with or into a third party, the sale of all or substantially all our assets or a change in our board composition over a two-year period resulting in fewer than a majority of directors remaining as incumbent directors. For purposes of this employment agreement, a termination without cause means a termination for reasons other than an act of material dishonesty in performing his duties, a felony conviction or plea of no contest to a felony or gross misconduct. For purposes of this employment agreement, good reason means a material reduction in Eric s base salary, performance bonus or in responsibilities or a relocation to more than 50 miles from our current facility.

In connection with his stock option exercise on September 28, 2001, we entered into a promissory note and security agreement with Eric. On April 28, 2004, Eric repaid the note in its entirety and the stock previously pledged as collateral was released from the security agreement. This arrangement is further described in Certain Relationships and Related Party Transactions Indebtedness of Management.

Limitation on Liability and Indemnification Matters

Our certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for the following:

Any breach of their duty of loyalty to our company or our stockholders.

Acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law.

Unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law.

Any transaction from which the director derived an improper personal benefit.

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Our bylaws provide that we are required to indemnify our directors and officers and may indemnify our employees and other agents to the fullest extent permitted by Delaware law. Our bylaws also provide that we shall advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding, and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity, regardless of whether our bylaws would otherwise permit indemnification. We have entered and expect to continue to enter into agreements to indemnify our directors, executive officers and other employees as determined by the board of directors. These agreements provide for indemnification for related expenses including attorneys fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors and officers liability insurance.

The limitation of liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Furthermore, a stockholder s investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. At present, there is no pending litigation or proceeding involving any of our directors, officers or employees regarding which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

Insofar as the provisions of our certificate of incorporation or bylaws provide for indemnification of directors or officers for liabilities arising under the Securities Act of 1933, we have been informed that in the opinion of the Securities and Exchange Commission this indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since January 1, 2001, we have not been a party to, and we have no plans to be a party to, any transaction or series of similar transactions in which the amount involved exceeded or will exceed $60,000 and in which any current director, executive officer, holder of more than 5% of our capital stock, or entities affiliated with them, had or will have a material interest, other than as described above in the section captioned Management and in the transactions described below.

Investor Rights Agreement

We have entered into an Investor Rights Agreement with the purchasers of our outstanding preferred stock, and certain holders of warrants to purchase our common stock and preferred stock, including entities with which certain of our directors are affiliated. The holders of 80,821,014 shares of our common stock, including the shares of common stock issuable upon the automatic conversion of our preferred stock, and the holders of 621,876 shares of our common stock issuable upon exercise of warrants are entitled to rights with respect to the registration of their shares under the Securities Act of 1933. Certain stockholders who are a party to this agreement are entitled to certain financial information regarding us and to visit and inspect our properties and books of account. These information and inspection rights will terminate upon the closing of this offering. In addition, stockholders who are a party to this agreement are provided certain rights to demand registration of shares of common stock issuable upon conversion of their preferred stock or upon exercise of their warrants and to participate in a registration of our common stock that we may decide to do, from time to time. These registration rights will survive this offering and will terminate as to any holder at such time as all of such holders securities can be sold within a three month period without compliance with the registration requirements of the Securities Act of 1933 pursuant to Rule 144, but in any event no later than the five-year anniversary of this offering. These demand registration rights, however, may not be exercised until six months after this offering. Certain of our directors and executive officers and holders of 5% of our capital stock are parties to this agreement and, as a group, these directors (and their affiliates), executive officers and shareholders represent 64.6% of the shares subject to this agreement. Eric Schmidt, Sergey Brin, Larry Page, Omid Kordestani and David C. Drummond each hold shares representing less than one percent of the shares subject to the agreement. Ram Shriram and entities affiliated with L. John Doerr and Michael Moritz hold shares representing 4.2%, 29.3% and 29.3% of the shares subject to the agreement, respectively. Parties to the Investor Rights Agreement are subject to selling restrictions as more fully described in Shares Eligible for Future Sale .

Indemnification Agreements

We have entered into an indemnification agreement with each of our directors and officers. The indemnification agreements and our certificate of incorporation and bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware law.

Shares Issued to Insiders

The following table summarizes purchases of our stock since January 1, 2001 by our executive officers, directors and holders of more than 5% of our common stock other than compensatory arrangements.

Name	Date of Issuance	Type of Security	Number of Shares	Purchase Price

Eric Schmidt	7/13/01	Series C preferred stock	426,892	$ 999,994.51

Each share of our preferred stock will be converted automatically into one share of our Class B common stock upon the closing of this offering.

Indebtedness of Management

In September 2001, in connection with the exercise of an option to purchase 14,331,708 shares of our Class B common stock, Eric Schmidt, our chief executive officer, delivered to us a full recourse promissory note

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dated September 28, 2001 in the aggregate principal amount of approximately $4.3 million secured by shares of Class B common stock. Interest on the loan accrued at a rate of 7.38% per annum, compounded semi-annually. The loan was secured by a security interest in 14,331,708 shares of our Class B common stock. The largest aggregate amount of indebtedness outstanding pursuant to the note was approximately $5.2 million, which represented the full amount of principal and interest outstanding at April 28, 2004, the date the loan was repaid in full.

Corporate Use of Personal Aircraft

Eric Schmidt owns an interest in a jet that is managed and operated by Apex Aviation and which is made commercially available for lease to consumers. Until recently, Eric owned a second jet, also managed and operated by Apex Aviation. Eric allows certain of our executive officers to use his aircraft for time-critical business trips that cannot be accommodated by commercial airline services. In 2003, we used these planes for business-related travel services for certain of our executive officers and for which services we paid Apex market rates. Eric is entitled to receive a portion of the profits earned by Apex resulting from its management and operation of these planes. Eric has agreed to pay us any and all annual net profits distributed to him as a result of his ownership of an interest in the jets. In 2003, we paid Apex $278,119 and reimbursed Eric $20,214 for the use of these planes. The reimbursements to Eric related to business flights where Eric was billed directly by Apex for use of the planes. These payments were approved by our board of directors and, based upon a competitive analysis of comparable leased aircraft, our board of directors determined that the amounts billed for our use of the aircraft and pilots were at or below market rates for the charter of similar aircraft.

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PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of our common stock at June 30, 2004, and as adjusted to reflect the sale of Class A common stock offered by us in this offering, for

- Each person who we know beneficially owns more than five percent of our common stock.
- Each of our directors.
- Each of our named executive officers.
- All of our directors and executive officers as a group.
- All selling stockholders.

Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o Google Inc., 1600 Amphitheatre Parkway, Mountain View, California 94043.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of Class B common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 12,359,204 shares of Class A common stock and 241,956,117 shares of Class B common stock outstanding at June 30, 2004, assuming the conversion of all outstanding shares of preferred stock into Class B common stock. For purposes of the table below, we have assumed that 33,603,386 shares of Class A common stock and 237,616,257 shares of Class B common stock will be outstanding upon completion of this offering. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares of common stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of June 30, 2004. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Beneficial ownership representing less than one percent is denoted with an *.

	Shares Beneficially Owned Prior to Offering						Shares Beneficially Owned After Offering				
	Class A Common Stock		Class B Common Stock		% Total Voting	Shares Being	Class A Common Stock		Class B Common Stock		% Total Voting
Name of Beneficial Owner	**Shares**	**%**	**Shares**	**%**	**Power(1)**	**Offered**	**Shares**	**%**	**Shares**	**%**	**Power(1)**
Officers and Directors											

Eric Schmidt	0	*	14,758,600	6.1	6.1	368,965	0	*	14,389,635	6.1	6.0
Sergey Brin	0	*	38,489,048	15.9	15.8	481,113	0	*	38,007,935	16.0	15.8
Larry Page	0	*	38,593,200	16.0	15.9	482,415	0	*	38,110,785	16.0	15.8
Omid Kordestani(2)	0	*	4,810,520	2.0	2.0	240,526	0	*	4,569,994	1.9	1.9
Wayne Rosing(3)	0	*	1,468,000	*	*	70,149	0	*	1,397,851	*	*
L. John Doerr(4)	0	*	21,043,711	8.7	8.7	0	0	*	21,043,711	8.9	8.7
John Hennessy(5)	0	*	65,000	*	*	0	0	*	65,000	*	*
Arthur Levinson(5)	0	*	65,000	*	*	0	0	*	65,000	*	*
Michael Moritz(6)	0	*	23,893,800	9.9	9.8	0	0	*	23,893,800	10.1	9.9
Paul Otellini(5)	0	*	65,000	*	*	0	0	*	65,000	*	*
K. Ram Shriram	0	*	5,324,660	2.2	2.2	266,233	0	*	5,058,427	2.1	2.1
All executive officers and directors as a group(7) (15 persons)	157,000	1.0	151,281,553	62.0	61.7	2,044,651	157,000	*	149,236,902	62.3	61.4
5% Security Holders											
Entities affiliated with Kleiner Perkins Caufield & Byers(4)	0	*	21,043,711	8.7	8.7	0	0	*	21,043,711	8.9	8.7
Entities affiliated with Sequoia Capital(6)	0	*	23,893,800	9.9	9.8	0	0	*	23,893,800	10.1	9.9
Gilad Elbaz	1,046,834	7.0	0	*	*	0	1,046,834	3.1	0	*	*
Yahoo! Inc.(8)	2,700,000	17.9	5,498,884	2.3	2.4	1,610,758	1,639,130	4.9	4,948,996	2.1	2.1

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Name of Beneficial Owner	Shares Beneficially Owned Prior to Offering: Class A Common Stock Shares	%	Class B Common Stock Shares	%	% Total Voting Power(1)	Shares Being Offered(17)	Shares Beneficially Owned After Offering: Class A Common Stock Shares	%	Class B Common Stock Shares	%	% Total Voting Power(1)
Selling Stockholders											
America Online, Inc.(9)	0	*	7,437,452	3.1	3.1	927,952	0	*	6,509,500	2.7	2.7
Entities affiliated with Angel Investors(10)	0	*	830,736	*	*	83,073	0	*	747,663	*	*
Andreas Bechtolsheim	0	*	3,614,080	1.5	1.5	361,408	0	*	3,252,672	1.4	1.3
David Cheriton	0	*	3,404,360	1.4	1.4	340,436	0	*	3,063,924	1.3	1.3
David C. Drummond	0	*	1,002,764	*	*	50,138	0	*	952,626	*	*
Roger J. Ebert and Chaz Ebert	0	*	20,192	*	*	2,019	0	*	18,173	*	*
fundfundfund.com, LLC(11)	0	*	100,000	*	*	10,000	0	*	90,000	*	*
Michael James Homer Trust, DTD 6/3/98(12)	0	*	100,960	*	*	10,096	0	*	90,864	*	*
Rackable Systems, Inc.(13)	0	*	42,688	*	*	4,268	0	*	38,420	*	*
George Reyes	0	*	851,750	*	*	42,587	0	*	809,163	*	*
Jonathan J. Rosenberg	0	*	850,500	*	*	42,525	0	*	807,975	*	*
Spalding & Associates(14)	0	*	18,000	*	*	1,800	0	*	16,200	*	*
VLLI Holdings II, LLC(15)	0	*	621,876	*	*	62,187	0	*	559,689	*	*
The Babak & Lisa Marie Yazdani Trust UTA dtd 4/27/00(16)	0	*	42,692	*	*	4,269	0	*	38,423	*	*

(1) Percentage total voting power represents voting power with respect to all shares of our Class A and Class B common stock, as a single class. Each holder of Class B common stock shall be entitled to ten votes per share of Class B common stock and each holder of Class A common stock shall be entitled to one vote per share of Class A common stock on all matters submitted to our stockholders for a vote. The Class A common stock and Class B common stock vote together as a single class on all matters submitted to a vote of our stockholders, except as may otherwise be required by law. The Class B common stock is convertible at any time by the holder into shares of Class A common stock on a share-for-share basis.

(2) Includes 1,420,000 shares issuable upon exercise of options that are exercisable within 60 days of June 30, 2004. The options provide for exercise prior to vesting, and any unvested shares that are exercised are subject to a lapsing repurchase right in our favor. 859,000 of the shares are vested and 561,000 of the shares are unvested.

(3) Includes 148,000 shares issuable upon exercise of options that are exercisable within 60 days of June 30, 2004. The options provide for exercise prior to vesting, and any unvested shares that are exercised are subject to a lapsing repurchase right in our favor. 11,000 of the shares are vested and 137,000 of the shares are unvested.

(4) Includes 18,111,504 shares held by Kleiner Perkins Caufield & Byers IX-A, L.P., 559,112 shares held by Kleiner Perkins Caufield & Byers IX-B, L.P., 597,344 shares held by KPCB Information Sciences Zaibatsu Fund II, L.P. and 1,775,751 shares held by Vallejo Ventures Trust. L. John Doerr is a manager of the general partners of the Kleiner Perkins Caufield & Byers funds and has shared voting and investment power over these shares. Mr. Doerr is also trustee of the Vallejo Ventures Trust and has voting and investment authority over the shares held by the Trust. However, Mr. Doerr disclaims beneficial ownership of these shares except to the extent of his pecuniary interest arising therein. Shares are held for convenience in the name of KPCB Holdings, Inc. as nominee for the account of entities affiliated with Kleiner Perkins Caufield & Byers and others. KPCB Holdings, Inc. has no voting, dispositive or pecuniary interest in any such shares. The address for all entities and individuals affiliated with Kleiner Perkins Caufield & Byers is 2750 Sand Hill Rd., Menlo Park, CA 94025.

(5) In April 2004, each of John, Art and Paul were granted options to purchase 65,000 shares that are exercisable within 60 days of the date of grant, none of which will then be vested. The options provide for exercise prior to vesting, and any unvested shares that are exercised are subject to a lapsing repurchase right in our favor.

(6) Includes 21,654,952 shares held by Sequoia Capital VIII; 1,433,624 shares held by Sequoia International Technology Partners VIII(Q); 477,872 shares held by CMS Partners LLC; 274,784 shares held by Sequoia International Technology Partners VIII; and 52,568 shares held by Sequoia 1997. SC VIII LLC is the general partner of Sequoia Capital VIII, Sequoia International Technology Partners VIII(Q) and Sequoia International Technology Partners VIII. Michael is one of the managing members, including Douglas Leone, Mark Stevens and Michael Goguen, of SC VIII

LLC and exercises shared voting and investment power over the shares held by the Sequoia entities. Michael disclaims beneficial ownership of the shares held by the Sequoia entities except to the extent of his pecuniary interest in these entities. The address of the entities affiliated with Sequoia Capital and Michael is 3000 Sand Hill Road, Bldg. 4, Suite 180, Menlo Park, California 94025.

(7) Includes 2,043,967 shares issuable upon exercise of options that are exercisable within 60 days of June 30, 2004, of which 870,000 shares are vested and 1,173,967 shares are unvested.

(8) Yahoo! Inc. is a publicly held corporation. The address of this entity is 701 1st Avenue, Sunnyvale, California 94089.

(9) America Online, Inc. is a wholly-owned subsidiary of a publicly held corporation.

(10) Includes 223,120 shares held by Angel Investors L.P.; 49,180 shares held by Angel Investors II L.P.; 180,720 shares held by Angel (Q) Investors L.P.; and 377,716 shares held by Angel (Q) Investors II L.P. Shared voting and investment power over the shares held by Angel Investors is exercised by Ron Conway, Casey McGlynn and Bob Bozeman, its managing directors.

(11) Voting and investment power over the shares held by fundfundfund.com LLC is exercised by Alexandria Real Estate Equities, L.P., its sole member and a wholly owned subsidiary of Alexandria Real Estate Equities, Inc., a publicly held corporation.

(12) Voting and investment power over the shares held by Michael James Homer Trust is exercised by Mr. Homer, its trustee.

(13) Voting and investment power over the shares held by Rackable Systems, Inc. is exercised by its board of directors, which includes Marc Rubin, Brian Golson, Thomas Barton and Giovanni Coglitori.

(14) Voting and investment power over the shares held by Spalding & Associates is exercised by Elyse Spalding, its sole proprietor.

(15) Voting and investment power over the shares held by VLLI Holdings II, LCC is exercised by Westech Investment Advisors, Inc. The principals of Westech Investment Advisors are Ronald W. Swenson and Salvador O. Gutierrez.

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