

Google Inc.  
Form 10-K  
February 15, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2007**

**OR**

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

**Commission file number: 000-50726**

**Google Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**77-0493581**  
(I.R.S. Employer

Identification Number)

**1600 Amphitheatre Parkway**

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Mountain View, CA 94043

(Address of principal executive offices)

(650) 253-0000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Class A Common Stock, \$0.001 par value	The Nasdaq Stock Market LLC
	(Nasdaq Global Select Market)

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class  
Class B Common Stock, \$0.001 par value  
Options to purchase Class A Common Stock

Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

At June 29, 2007, the aggregate market value of shares held by non-affiliates of the Registrant (based upon the closing sale price of such shares on the Nasdaq Global Select Market on June 29, 2007) was approximately \$104,596,093,551. Shares of the Registrant's Class A common stock and Class B common stock held by each executive officer and director and by each entity or person that, to the Registrant's knowledge, owned 5% or more of the Registrant's outstanding common stock as of June 29, 2007 have been excluded in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

At January 31, 2008, there were 236,750,181 shares of the Registrant's Class A common stock outstanding and 76,628,707 shares of the Registrant's Class B common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the Registrant's fiscal year ended December 31, 2007.

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**For the Fiscal Year Ended December 31, 2007**

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### **PART I**

#### **ITEM 1. BUSINESS**

##### **Overview**

Google is a global technology leader focused on improving the ways people connect with information. Our innovations in web search and advertising have made our web site a top internet destination and our brand one of the most recognized in the world. We maintain the largest, most comprehensive index of web sites and other online 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 primarily by delivering relevant, cost-effective online advertising. Businesses use our AdWords program to promote their products and services with targeted advertising. In addition, the thousands of third-party web sites that comprise the Google Network use our AdSense program to deliver relevant ads that generate revenue and enhance the user experience.

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

##### **Our Mission**

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

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

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

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

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

##### **How We Provide Value to Our Users**

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

Some of the key benefits we offer include:

*Comprehensiveness and Relevance.* Our search technologies sort through a vast and growing amount of information to deliver relevant and useful search results in response to user queries. This is an area of continual development for us. When we started the company in 1998, our web index contained approximately 30 million



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documents. We now index billions of web pages and strive to provide the most comprehensive search experience possible. Our team continually improves our relevance algorithms to objectively determine the best answers to our users' queries and to place these answers at the top of our search results. We are also constantly developing new functionality and enhancing our offerings to allow our users to more easily and quickly find 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 payment for search result ranking or inclusion. We do accept fees for advertising, but the advertising is clearly marked and separated and does not influence how we generate our search results. This is similar to a newspaper, where the articles are independent of the advertising. Inclusion and frequent updating in our index are open to all sites free of charge. We believe it is important for users to have access to the best available information, not just the information that someone pays for them to see.

*Global Access.* We strive to provide our services to everyone in the world. Users from around the world visit our destination sites at Google.com and our international domains, such as Google.ba, Google.dm, Google.nr, Google.co.jp and Google.ca. The Google interface is available in 116 languages. Through Google News, we offer an automated collection of frequently updated news stories in 18 languages tailored to 45 international audiences. We also offer automatic translation of content between various languages and provide localized versions of Google in many developing countries.

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

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

*Multiple Access Platforms.* Mobile devices are a fundamental development platform for us. Many people around the world have their first experience of the internet—and Google—on their mobile phones or other mobile devices. We have continued to invest in improving mobile search and have introduced applications that allow users to access search, email, maps, directions and satellite imagery through their mobile devices.

## **Products and Services for our Users**

Our product development philosophy involves rapid and continuous innovation, with frequent releases of early-stage 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. Once we are satisfied that a product is of high quality and utility, we remove the beta label and make it a core Google product. Our main products and services are described below.

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### ***Google.com Search and Personalization***

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

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

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

Web Page Translation automatically translates web pages published in 12 languages, including Arabic, Chinese, French, German, and Spanish, into English, or vice versa.

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

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

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

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

News, Finance, Maps, Image, Book and Groups Information when relevant, we also display results from other Google products including Google News, Google Finance, Google Maps, Google Image Search, Google Book Search and Google Groups.

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

*Google Book Search.* Google Book Search lets users search the full text of a library-sized collection of books to discover books of interest and to learn where to buy or borrow them. Through this program, publishers can host their content and show their publications at the top of our search results. We also work closely with participating libraries to digitize all or part of their collections to create a full-text searchable online card catalog. Google Book Search links bring users to pages containing bibliographic information and several sentences of the search term in context, sample book pages, or full text, depending on author and publisher permissions and book copyright status.

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

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



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

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

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

*Personalized Homepage and Search.* Our Google.com personalized homepage gives our users a way to add the information they care about most to their own version of the Google homepage. Personalized homepages bring together content from across the web and other Google properties, such as Gmail and Google News, in ways that are useful to our users. Personalized Search gives our users better search results based on what they have searched for in the past, making it easier to quickly find the information that is more relevant to them. Users can also view and manage their history of past searches and the results they have clicked on, and create bookmarks with labels and notes.

*Google Co-op and Custom Search.* Google Co-op extends the power of Google's search technology by combining our algorithms with the context, knowledge and expertise of individuals. Google Custom Search allows communities of users familiar with particular topics to build customized search engines. These customized search engines allow them to help improve the quality of search results by labeling and annotating relevant web pages or by creating specialized, subscribed links for users to get more detailed information about a particular topic.

*Google Video and YouTube.* Google Video and YouTube let users find, upload, view and share video content worldwide.

### ***Communication, Collaboration and Communities***

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

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

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

*Gmail.* Gmail is Google's free webmail service that comes with built-in Google search technology to allow searching of emails and over 6,300 megabytes of storage, allowing users to keep their important messages, files and pictures. In addition, we have integrated our instant messaging product into Gmail. We serve small text ads that are relevant to the messages in Gmail.

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

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

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

*Blogger.* Blogger is a web-based publishing tool that lets people publish to the web instantly using weblogs, or blogs. Blogs are web pages usually made up of short, informal and frequently updated posts that are arranged chronologically. 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. Blogger now features improved spam protection and is available in nine languages.

### ***Downloadable applications***

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

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

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

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

### ***Google GEO Maps, Earth and Local***

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

*Google Maps.* Google Maps helps people navigate map information. Users can look up addresses, search for businesses, and get point-to-point driving directions all plotted on an interactive street map or on satellite imagery. Google Maps includes 360-degree street-level imagery in several cities. Google Maps provides a comprehensive search experience by combining yellow-pages listings with ratings and reviews and other business information. We display relevant targeted ads for searches done through Google Maps.

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

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### ***Google Checkout***

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

placing a small shopping cart icon on the AdWords advertisements of stores who accept Google Checkout so that users can easily identify and visit participating merchants.

saving users time by letting them buy with a single login for use across the web and track shipping and purchase histories in one place.

improving security by not revealing the user's full credit card number to the seller, reimbursing a user for unauthorized purchases and helping the user control commercial spam from online shopping.

For merchants, Google Checkout is integrated with AdWords to help advertisers attract more leads, convert more leads to sales and process sales. We believe that Google Checkout's streamlined checkout process lowers shopping cart abandonment and barriers to purchase, which increases conversion of clicks to sales for participating merchants. On February 1, 2008, we began charging merchants who use Google Checkout 2% of the transaction amount plus \$0.20 per transaction to the extent these fees exceed 10 times the amount they spend on AdWords advertising.

### ***Google Mobile***

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

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

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

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

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

*Android.* Android is an open-source and free mobile software platform which allows developers to create applications for mobile devices. Android is being developed with the Open Handset Alliance, a group of more than 30 technology and mobile companies, with the goal of providing consumers a less expensive and richer mobile experience.

### ***Google Labs***

Google Labs is our testbed for our engineers and adventurous Google users. On Google Labs, we post product prototypes and solicit feedback on how the technology could be used or improved. Current Google Labs examples include: *Google Code Search*, an interface that lets developers search publicly available open-source



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code, and *Google Web Accelerator*, a downloadable client application that uses Google's global computer network to enhance user web experience by enabling faster loading of web pages.

### **The Technology Behind Search and Our User Products and Services**

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

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

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

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

### **How We Provide Value to Our Advertisers and Content Owners**

#### ***Google AdWords***

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

Advertisers in our AdWords program create text-based or display ads, bid on the keywords that will trigger the display of their ads and set daily spending budgets. AdWords features an automated, low-cost online signup

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process that lets advertisers implement ad campaigns that can very quickly go live on Google properties and the Google Network. 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 both for the person looking for information and for the advertiser who is generating relevant ads. The AdWords program offers advertisers the following additional benefits:

*Return on Investment.* Many advertising dollars are spent delivering messages in an untargeted fashion, and payment for these advertisements is not tied to performance. AdWords shows ads only to people seeking information related to what the advertisers are selling, and advertisers choose how much they pay when a user clicks on their ad. Because we offer a simple ad format, advertisers can also avoid incurring significant costs associated with creating ads. As a result, even small advertisers find AdWords cost-effective for connecting with potential customers. In addition, advertisers can create many different ads, increasing the likelihood that an ad is suited to a user's search. Users can find advertisements for what they are seeking, and advertisers can find users who want what they are offering.

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

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

*Broader Range of Media.* Our experiments with targeted ads in new media also open up new inventory options to AdWords advertisers. With the acquisition of dMarc Broadcasting in February 2006 and YouTube in October 2006, we have broadened the distribution options for our advertisers. In addition, we have been testing ad placements in mobile search. We are also currently placing ads in over 650 newspapers in the U.S. and, among other things, experimenting with ways of further streamlining the process of placing print ads.

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

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

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

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

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

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

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

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

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

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

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

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

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

## ***Google AdSense***

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

*Access to Advertisers.* Many small web site companies and content producers do not have the time or resources to develop effective programs for generating revenue from online advertising. Even larger sites, with dedicated sales teams, may find it difficult to generate revenue from pages with specialized content. Google AdSense promotes effective revenue generation by providing Google Network members access to Google's base of advertisers and their broad collection of ads. Our technology



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automatically starts delivering ads on a web site as soon as the site joins the Google Network. Because the ads are related to what the web site's visitors are looking for on the site, AdSense provides web sites with a way to both monetize and enhance their sites. The Google Network member determines the placement of the ads on its web site, and controls and directs the nature of ad content.

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

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

*Syndicated Search.* We provide our search technology to partners of all sizes, allowing Google search service to be offered through these partners' properties. For commercial partners, we provide an extensive range of customization options. We also provide free standard Web Search and Site Search to other partners through Google Free.

Our Google AdSense program includes:

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

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

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

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

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

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

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

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

*Google AdSense for Newspapers and Print Ads.* Google AdSense for Newspapers is an early-stage product that lets newspaper publishers identify and manage available ad inventory and access bids submitted by advertisers who use Google Print Ads to create and launch their print campaigns. Google Print Ads makes it easier for advertisers to place advertisements in newspapers by simplifying the evaluation and selection of newspapers for print advertising campaigns, letting advertisers set their own prices and providing an online interface to create and upload ads and view electronic versions of published ads.

*Google TV Ads.* Google TV Ads is an early-stage product that allows advertisers to use their AdWords account to create TV campaigns. Advertisers can use our online advertising platform to place and monitor the effectiveness of their TV ads, enhancing relevance and accountability as compared to traditional TV advertising.

## **The Technology Behind Google's Advertising Programs**

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

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

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

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

## **Google Enterprise**

We provide our search technology for use within enterprises through the Google Search Appliance and Google Mini. These search appliances are a software and hardware solution that companies can implement to extend Google's search performance to their internal or external information. They leverage our search technology to identify the most relevant pages on public web sites and across the corporate network, making it easy for people to find the information they need. We also provide hosted applications for businesses, schools, and nonprofit organizations through Google Apps.

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

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

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

For companies, universities and government agencies, Google also offers the Google Toolbar for Enterprise and Google Desktop for Enterprise. Google Toolbar gives employees a search box in the browser and the ability

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

## **Sales and Support**

We have put significant effort into developing our sales and support infrastructure. We have over 60 offices in over 20 countries, the large majority of which include sales people. We deploy specialized sales teams across 11 vertical markets. We bring businesses into our advertising network through both online and direct sales channels. We work to use technology and automation wherever possible to improve the experience for our advertisers and to grow our business cost-effectively. The vast majority of our advertisers use our automated online AdWords program to establish accounts, create ads, target users and launch and manage their advertising campaigns. Our direct advertising sales team focuses on attracting and supporting companies around the world with the largest advertising budgets. Our AdSense program follows a similar model. Most of the web sites in the Google Network sign up for AdSense using an automated online process. Our direct sales force focuses on building AdSense relationships with leading internet companies. Our global support organization concentrates on helping our advertisers and Google Network members get the most out of their relationships with us.

## **Marketing**

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

## **Competition**

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

We also face competition from other web search providers, including start-ups as well as developed companies that are enhancing or developing search technologies. We compete with internet advertising companies, particularly in the areas of pay-for-performance and keyword-targeted internet advertising. 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 also provide a number of online products and services, including Google Checkout, YouTube and our communications tools such as Google Docs, that compete directly with new and established companies that offer communication, information and entertainment services integrated into their products or media properties. We also compete with web sites that provide their own or user-generated content and seek to provide advertising to their users.

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

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

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

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

## **Intellectual Property**

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

Google, AdSense, AdWords, Gmail, I'm Feeling Lucky, PageRank, Blogger, orkut, Picasa and Keyhole are registered trademarks in the U.S. Our unregistered trademarks include, Blog\*Spot, Writely and YouTube.

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

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

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

## **Government Regulation**

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business on the internet. In addition, laws and regulations relating to user privacy, freedom of expression,

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content, advertising, information security and intellectual property rights are being debated and considered for adoption by many countries throughout the world. We face risks from some of the proposed legislation that could be passed in the future.

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

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

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

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

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

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

## **Culture and Employees**

We take great pride in our company culture and embrace it as one of our fundamental strengths. Our culture encourages the iteration of ideas to address complex technical challenges. In addition, we embrace individual thinking and creativity. As an example, we encourage our engineers to devote as much as 20% of

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their time to work on independent projects. Many of our significant new products have come from these independent projects, including Google News, AdSense for content and orkut.

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

We have assembled what we believe is a highly talented group of employees. Despite our rapid growth, we constantly seek to maintain a small-company feel that promotes interaction and the exchange of ideas among employees. We try to minimize corporate hierarchy to facilitate meaningful communication among employees at all levels and across departments, 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, our advertisers and our users.

At December 31, 2007, we had 16,805 employees, consisting of 5,788 in research and development, 6,647 in sales and marketing, 2,844 in general and administrative and 1,526 in operations. All of Google's employees are also equityholders, with significant collective employee ownership. As a result, many employees are highly motivated to make the company more successful.

## **Seasonality**

Both seasonal fluctuations in internet usage and traditional retail seasonality have affected, and are likely to continue to affect, our business. Internet usage generally slows during the summer months, and commercial queries typically increase significantly in the fourth quarter of each year. These seasonal trends have caused and will likely continue to cause, fluctuations in our quarterly results, including fluctuations in sequential revenue growth rates.

## **Available Information**

Our web site is located at [www.google.com](http://www.google.com), and our investor relations web site is located at <http://investor.google.com>. The information on or accessible through our web sites is not part of this Annual Report on Form 10-K. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to such reports are available, free of charge, on our investor relations web site as soon as reasonably practicable after we electronically file or furnish such material with the SEC. Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at [www.sec.gov](http://www.sec.gov).

**Table of Contents****Executive Officers of The Registrant**

The names of our executive officers and their ages, titles and biographies as of January 31, 2008 are set forth below:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Eric Schmidt	52	Chairman of the Board of Directors, Chief Executive Officer and Director
Sergey Brin	34	President of Technology and Director
Larry Page	35	President of Products and Director
Omid Kordestani	44	Senior Vice President of Global Sales and Business Development
David C. Drummond	44	Senior Vice President of Corporate Development, Chief Legal Officer and Secretary
George Reyes	53	Senior Vice President and Chief Financial Officer
Jonathan J. Rosenberg	46	Senior Vice President of Product Management
Shona L. Brown	41	Senior Vice President of Business Operations
Alan Eustace	51	Senior Vice President of Engineering and Research

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

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

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

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

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



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*David C. Drummond* has served as our Senior Vice President of Corporate Development since January 2006 and as Chief Legal Officer since December 2006. Previously, he served as our Vice President of Corporate Development and General Counsel since February 2002. Prior to joining us, from July 1999 to February 2002, David served as Chief Financial Officer of SmartForce, an educational software applications company. Prior to that, David was a partner at the law firm of Wilson Sonsini Goodrich & Rosati. David holds a J.D. from Stanford University and a Bachelor of Arts degree in history from Santa Clara University.

*George Reyes* has served as our Senior Vice President and Chief Financial Officer since January 2006. Previously, he served as our Vice President and 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, Symantec, an information security company, and Flextronics, an electronics design, fabrication, assembly, and test 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. On August 27, 2007, George informed Google of his intention to resign as Chief Financial Officer. The effective date of his retirement has not been determined.

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

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

*Alan Eustace* has served as our Senior Vice President of Engineering and Research since January 2006. Previously, he served as our Vice President of Engineering since July 2003. Prior to joining us, from May 2002 to June 2003, Alan was at Hewlett-Packard, a provider of technology products, software and services, where he most recently served as Director of the Western Research Laboratory. Prior to that, Alan worked at Compaq from June 1998 until its acquisition by Hewlett-Packard in May 2002. Prior to that, Alan held various positions at Digital Equipment Corporation until its acquisition by Compaq in June 1998. Alan holds a Bachelor of Science degree, a Masters of Science degree and a Ph.D. in computer science from the University of Central Florida.

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**ITEM 1A. RISK FACTORS**

**Risks Related to Our Business and Industry**

***We face significant competition from Microsoft and Yahoo.***

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

***We face competition from other internet companies, including web search providers, internet access providers, internet advertising companies and destination web sites.***

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

We also compete with web sites that provide their own or user-generated content and provide advertising to their users. These destination web sites include those operated by internet access providers, such as cable and DSL service providers. Because our users need to access our services through internet access providers, they have direct relationships with these providers. If an access provider or a computer or computing device manufacturer offers online services that compete with ours, the user may find it more convenient to use the services of the access provider or manufacturer. In addition, the access provider or manufacturer may make it hard to access our services by not listing them in the access provider's or manufacturer's own menu of offerings, or may charge users to access our web sites or the web sites of our Google Network members. Also, because the access provider gathers information from the user in connection with the establishment of a billing relationship, the access provider may be more effective than we are in tailoring services and advertisements to the specific tastes of the user.

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

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

In addition to internet companies, we face competition from companies that offer traditional media advertising opportunities. Most large advertisers have fixed advertising budgets, a small portion of which is

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allocated to internet advertising. We expect that large advertisers will continue to focus most of their advertising efforts on traditional media. If we fail to convince these companies to spend a portion of their advertising budgets with us, or if our existing advertisers reduce the amount they spend on our programs, our operating results would be harmed.

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

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

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

Our operating results may fluctuate as a result of a number of factors, many outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly, year-to-date and annual expenses as a percentage of our revenues may differ significantly from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in this Item 1A and the following factors may affect our operating results:

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

Our ability to monetize (or generate revenue from) traffic on our web sites and our Google Network members' web sites.

Our ability to attract advertisers to our AdWords program.

Our ability to attract web sites to our AdSense program.

The mix in our revenues between those generated on our web sites and those generated through our Google Network.

The amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our businesses, operations and infrastructure.

Our focus on long-term goals over short-term results.

The results of our investments in risky projects.

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

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

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

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Because our business is changing and evolving, our historical operating results may not be useful to you in predicting our future operating results. In addition, advertising spending has historically been cyclical in nature, reflecting overall economic conditions as well as budgeting and buying patterns. For example, in 1999, advertisers spent heavily on internet advertising. This was followed by a lengthy downturn in ad spending on the web. Also, user traffic tends to be seasonal. Our rapid growth has tended to mask the cyclicity and seasonality of our business. As our growth rate has slowed, the cyclicity and seasonality in our business has become more pronounced and caused our operating results to fluctuate.

***If we do not continue to innovate and provide products and services that are useful to users, we may not remain competitive, and our revenues and operating results could suffer.***

Our success depends on providing products and services that make using the internet a more useful and enjoyable experience for our users. Our competitors are constantly developing innovations in web search, online advertising and web based products and services. As a result, we must continue to invest significant resources in research and development in order to enhance our web search technology and our existing products and services and introduce new products and services that people can easily and effectively use. If we are unable to provide quality products and services, then our users may become dissatisfied and move to a competitor's products and services. Our operating results would also suffer if our innovations are not responsive to the needs of our users, advertisers and Google Network members, are not appropriately timed with market opportunities or are not effectively brought to market. As search technology continues to develop, our competitors may be able to offer search results that are, or that are seen to be, substantially similar to or better than ours. This may force us to compete in different ways and expend significant resources in order to remain competitive.

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

We generated approximately 99% of our revenues in 2007 from our advertisers. Our advertisers can generally terminate their contracts with us at any time. Advertisers will not continue to do business with us if their investment in advertising with us does not generate sales leads, and ultimately customers, or if we do not deliver their advertisements in an appropriate and effective manner. If we are unable to remain competitive and provide value to our advertisers, they may stop placing ads with us, which would negatively harm our revenues and business. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Any decreases in or delays in advertising spending due to general economic conditions could reduce our revenues or negatively impact our ability to grow our revenues.

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

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

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

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

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

***Our business depends on a strong brand, and failing to maintain and enhance our brand would hurt our ability to expand our base of users, advertisers and Google Network members.***

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

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

We do not have a great deal of experience acquiring companies, and the companies we have acquired have typically been small. We frequently evaluate and enter into discussions regarding a wide array of potential strategic transactions. 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:

Implementation or remediation of controls, procedures and policies at the acquired company.

Diversion of management time and focus from operating our business to acquisition integration challenges.

Coordination of sales and marketing functions.

Cultural challenges associated with integrating employees from the acquired company into our organization.

Retention of employees from the businesses we acquire.

Integration of each company's accounting, management information, human resource and other administrative systems. 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.

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

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

International revenues accounted for approximately 48% of our total revenues in 2007, and more than half of our user traffic came from outside the U.S. during this period. We have limited experience with operations outside the U.S. and our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to a number of risks, including the following:

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

Difficulties in developing products and services in different languages and for different cultures.

Longer payment cycles in some countries.

Credit risk and higher levels of payment fraud.

Currency exchange rate fluctuations.

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

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

Political and economic instability.

Potentially adverse tax consequences.

Higher costs associated with doing business internationally.

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

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

We believe that a critical contributor to our success has been our corporate culture, which we believe fosters innovation, creativity and teamwork. As our organization grows, and we are required to implement more



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complex organizational management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

***Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand.***

Our patents, trademarks, trade secrets, copyrights and other intellectual property rights are important assets for us. Various events outside of our control pose a threat to our intellectual property rights as well as to our products and services. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed or made available through the internet. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

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

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

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

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

Companies in the internet, technology and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. As we have grown, the intellectual property rights claims against us have increased. Our products, services and technologies may not be able to withstand any third-party claims and regardless of the merits of the claim, intellectual property claims are often time-consuming and expensive to litigate or settle. In addition, to the extent claims against us are successful, we may have to pay substantial monetary damages or discontinue any of our services or practices that are found to be in violation of another party's rights. We also may have to seek a license to continue such practices, which may significantly increase our operating expenses. In addition, many of our agreements with members of our Google Network and other partners require us to indemnify these members for certain third-party intellectual property infringement claims, which would increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling in any such claims.

Companies have filed trademark infringement and related claims against us over the display of ads in response to user queries that include trademark terms. The outcomes of these lawsuits have differed from jurisdiction to jurisdiction. Courts in France have held us liable for allowing advertisers to select certain trademarked terms as keywords. We are appealing those decisions. We were also subject to two lawsuits in Germany on similar matters where the courts held that we are not liable for the actions of our advertisers prior to notification of trademark rights. We are litigating or have recently litigated similar issues in other cases in the U.S., France, Germany, Israel, Italy, Austria and Australia.

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

### ***Privacy concerns relating to our technology could damage our reputation and deter current and potential users from using our products and services.***

From time to time, concerns have been expressed about whether our products and services compromise the privacy of users and others. Concerns about our practices with regard to the collection, use, disclosure or security of personal information or other privacy-related matters, even if unfounded, could damage our reputation and operating results. While we strive to comply with all applicable data protection laws and regulations, as well as our own posted privacy policies, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, which could potentially have an adverse effect on our business.

In addition, as nearly all of our products and services are web based, the amount of data we store for our users on our servers (including personal information) has been increasing. Any systems failure or compromise of our security that results in the release of our users' data could seriously limit the adoption of our products and services as well as harm our reputation and brand and, therefore, our business. We may also need to expend significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of web based products and services we offer as well as increase the number of countries where we operate.

A number of legislative proposals pending before the U.S. Congress, various state legislative bodies and foreign governments concern data protection. In addition, the interpretation and application of data protection laws in Europe and elsewhere are still uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

### ***Our business is subject to a variety of U.S. and foreign laws that could subject us to claims or otherwise harm our business.***

We are subject to a variety of laws in the U.S. and abroad that are costly to comply with, can result in negative publicity and diversion of management time and effort, and can subject us to claims or other remedies. For example, the laws relating to the liability of providers of online services are currently unsettled both within the U.S. and abroad. Claims have been threatened and filed under both U.S. and foreign law for defamation, libel, slander, invasion of privacy and other tort claims, unlawful activity, copyright and trademark infringement, or other theories based on the nature and content of the materials searched and the ads posted by our users, our products and services, or content generated by our users.

In addition, the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for listing or linking to third-party web sites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. The Child Online Protection Act and the Children's Online Privacy Protection Act restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect

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information from minors. In the area of data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as California's Information Practices Act. We face similar risks and costs as our products and services are offered in international markets and may be subject to additional regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

### ***If we were to lose the services of Eric, Larry, Sergey or other members of our senior management team, we may not be able to execute our business strategy.***

Our future success depends in a large part upon the continued service of key members of our senior management team. In particular, our CEO, Eric Schmidt, and our founders, Larry Page and Sergey Brin, are critical to the overall management of Google as well as the development of our technology, our culture and our strategic direction. All of our executive officers and key employees are at-will employees, and we do not maintain any key-person life insurance policies. The loss of any of our management or key personnel could seriously harm our business.

### ***We rely on highly skilled personnel and, if we are unable to retain or motivate key personnel or hire qualified personnel, we may not be able to grow effectively.***

Our performance largely depends on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. Competition in our industry for qualified employees is intense, and certain of our competitors have directly targeted our employees. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

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

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

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

***More individuals are using non-PC devices to access the internet. If users of these devices do not widely adopt versions of our web search technology developed for these devices, our business could be adversely affected.***

The number of people who access the internet through devices other than personal computers, including mobile telephones, personal digital assistants (PDAs), smart phones and handheld computers and video game consoles, as well as television set-top devices, has increased dramatically in the past few years. The lower resolution, functionality and memory associated with alternative devices make the use of our products and services through such devices more difficult. If we are unable to attract and retain a substantial number of alternative device users to our web search services or if we are slow to develop products and technologies that are more compatible with non-PC communications devices, we will fail to capture a significant share of an increasingly important portion of the market for online services, which could adversely affect our business.

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

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

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

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

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

***Our business depends on continued and unimpeded access to the internet by us and our users. Internet access providers may be able to block, degrade or charge for access to certain of our products and services, which could lead to additional expenses and the loss of users and advertisers.***

Our products and services depend on the ability of our users to access the internet, and certain of our products require significant bandwidth to work effectively. Currently, this access is provided by companies that have significant and increasing market power in the broadband and internet access marketplace, including incumbent telephone companies, cable companies and mobile communications companies. Some of these providers have stated that they may take measures that could degrade, disrupt or increase the cost of user access to certain of our products by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings. These activities may be permitted in the U.S. after recent regulatory changes, including recent decisions by the U.S. Supreme Court and Federal Communications Commission. While interference with access to our popular products and services seems unlikely, such carrier interference could result in a loss of existing users and advertisers and increased costs, and could impair our ability to attract new users and advertisers, thereby harming our revenue and growth.

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

The availability of our products and services depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could result in interruptions in our service, which could reduce our revenues and profits, and damage our brand. Our systems are vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses, computer denial of service attacks or other attempts to harm our systems. Some of our data centers are located in areas with a high risk of major earthquakes. Our data centers are also subject to break-ins, sabotage and intentional acts of vandalism, and to potential disruptions if the operators of these facilities have financial difficulties. Some of our systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities. The occurrence of a natural disaster, a decision to close a facility we are using without adequate notice for financial reasons or other unanticipated problems at our data centers could result in lengthy interruptions in our service.

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

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

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

We are obligated under certain agreements to make non-cancelable guaranteed minimum revenue share payments to Google Network members based on their achieving defined performance terms, such as number of search queries or advertisements displayed. In these agreements, we promise to make these minimum payments to the Google Network member for a pre-negotiated period of time. At December 31, 2007, our aggregate outstanding non-cancelable guaranteed minimum revenue share commitments totaled \$1.75 billion through 2012 compared to \$1.17 billion at December 31, 2006. It is difficult to forecast with certainty the fees that we will earn under agreements with guarantees, and sometimes the fees we earn fall short of the guaranteed minimum payment amounts.

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

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

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

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

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

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

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

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

***We may have exposure to greater than anticipated tax liabilities.***

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities or by changes in tax laws, regulations, accounting principles or interpretations thereof. Our determination of our tax liability is always subject to review by applicable tax authorities. Any adverse outcome of such a review could have a negative effect on our operating results and financial condition. In addition, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

## **Risks Related to Ownership of our Common Stock**

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

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

Quarterly variations in our results of operations or those of our competitors.

Announcements by us or our competitors of acquisitions, new products, significant contracts, commercial relationships or capital commitments.

Recommendations by securities analysts or changes in earnings estimates.

Announcements about our earnings that are not in line with analyst expectations, the risk of which is enhanced because it is our policy not to give guidance on earnings.

Announcements by our competitors of their earnings that are not in line with analyst expectations.

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

Sales of stock by us or by our stockholders.



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

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our Class A common stock, regardless of our actual operating performance. In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

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

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

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

Our Class B common stock has 10 votes per share and our Class A common stock has one vote per share. As of December 31, 2007, our founders, executive officers and directors (and their affiliates) together owned shares of Class A common stock, Class B common stock and other equity interests representing approximately 70% of the voting power of our outstanding capital stock. In particular, as of December 31, 2007, our two founders and our CEO, Larry, Sergey and Eric, owned approximately 88% of our outstanding Class B common stock, representing approximately 67% of the voting power of our outstanding capital stock. Larry, Sergey and Eric therefore have significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated control limits our stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our Class A common stock could be adversely affected.

### ***Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.***

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

Our certificate of incorporation provides for a dual class common stock structure. As a result of this structure our founders, executives and employees have significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets. This concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction that other stockholders may view as beneficial.

Our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors.

Our stockholders may not act by written consent. As a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions without holding a stockholders' meeting.

Our certificate of incorporation prohibits cumulative voting in the election of directors. This limits the ability of minority stockholders to elect director candidates.

Stockholders must provide advance notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting. These provisions may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company.

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

As a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its



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capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Our board of directors could rely on Delaware law to prevent or delay an acquisition of us.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

We have received no written comments regarding our periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of our 2007 fiscal year and that remained unresolved.

**ITEM 2. PROPERTIES**

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

We own land and buildings primarily near our headquarters in Mountain View, California. We own approximately 1.4 million square feet of buildings and approximately 83 acres of developable land to accommodate anticipated future growth.

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

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

**ITEM 3. LEGAL PROCEEDINGS**

From time to time, we are involved in a variety of claims, suits, investigations and proceedings arising from the ordinary course of our business, including actions with respect to intellectual property claims, breach of contract claims, labor and employment claims, tax and other matters. Although claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, we believe that the resolution of our current pending matters will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flow. Regardless of the outcome, litigation can have an adverse impact on us because of defense costs, diversion of management resources and other factors. In addition, it is possible that an unfavorable resolution of one or more such proceedings could in the future materially and adversely affect our financial position, results of operations or cash flows in a particular period. See the risk factors *We are, and may in the future be, subject to intellectual property rights claims, which are costly to defend, could require us to pay damages and could limit our ability to use certain technologies in the future and Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand* in Item 1A of this Annual Report on Form 10-K.

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

No matters were submitted to a vote of our security holders during the fourth quarter of 2007.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our Class A common stock has been listed on the Nasdaq Global Select Market under the symbol GOOG since August 19, 2004. Prior to that time, there was no public market for our stock. The following table sets forth for the indicated periods the high and low sales prices per share for our Class A common stock on the Nasdaq Global Select Market.

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

<b>Fiscal Year 2006 Quarters Ended:</b>	<b>High</b>	<b>Low</b>
March 31, 2006	\$ 475.11	\$ 331.55
June 30, 2006	450.72	360.57
September 30, 2006	427.89	363.36
December 31, 2006	513.00	398.19

Our Class B common stock is neither listed nor traded.

**Holders of Record**

As of January 31, 2008, there were approximately 2,776 stockholders of record of our Class A common stock, and the closing price of our Class A common stock was \$564.30 per share as reported by the Nasdaq Global Select Market. Because many of our shares of Class A common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. As of January 31, 2008, there were approximately 111 stockholders of record of our Class B common stock.

**Dividend Policy**

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

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### **Stock Performance Graph**

This performance graph shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of Google under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph shows a comparison from August 19, 2004 (the date our Class A common stock commenced trading on the Nasdaq Global Select Market) through December 31, 2007 of the cumulative total return for our Class A common stock, The Nasdaq Composite Index, the RDG Internet Composite Index and the S&P 500 Index. Such returns are based on historical results and are not intended to suggest future performance. Data for The Nasdaq Composite Index, the RDG Internet Composite Index and the S&P 500 Index assume reinvestment of dividends. We have never paid dividends on our Class A common stock and have no present plans to do so.

#### **COMPARISON OF 40 MONTH CUMULATIVE TOTAL RETURN\***

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

And The RDG Internet Composite Index

\* \$100 invested on 8/19/04 in stock or on 7/31/04 in index-including reinvestment of dividends. Fiscal year ending December 31.  
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*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

**Table of Contents****Purchases of Equity Securities by Google**

Pursuant to the terms of our 1998 Stock Plan, 2000 Stock Plan, 2003 Stock Plan, 2003 Stock Plan (No. 2), 2003 Stock Plan (No. 3), 2004 Stock Plan and equity incentive plans assumed through acquisitions (collectively referred to as our Stock Plans), options may typically be exercised prior to vesting. We have the right to repurchase unvested shares from service providers upon their termination, and it is generally our policy to do so. The following table provides information with respect to purchases made by us of shares of our common stock during the three-month period ended December 31, 2007:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - 31		\$		
November 1 - 30	401	\$ 0.30		
December 1 - 31		\$		
Total	401	\$ 0.30		

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

**Results of Google's Transferable Stock Option Program**

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

Period (1)	Aggregate Amounts			Weighted-Average Per Share Amounts		
	Number of Shares Underlying TSOs Sold	Sale Price of TSOs Sold (in thousands)	TSO Premium (2) (in thousands)	Exercise Price of TSOs Sold	Sale Price of TSOs Sold	TSO Premium (2)
October 1 - 31	216,659	\$ 92,586	\$ 5,480	\$ 262.22	\$ 427.33	\$ 25.29
November 1 - 30	167,813	\$ 68,642	\$ 6,982	\$ 330.54	\$ 409.04	\$ 41.61
December 1 - 31						
<b>Total (except weighted-average amounts)</b>	<b>384,472</b>	<b>\$ 161,228</b>	<b>\$ 12,462</b>	<b>\$ 292.04</b>	<b>\$ 419.35</b>	<b>\$ 32.41</b>

- (1) The TSO program is generally active during regular NASDAQ trading hours when Google's trading window is open. However, we have the right to suspend the TSO program at any time for any reason, including for maintenance and other technical reasons.
- (2) TSO premium is calculated as the difference between (a) the sale price of the TSO and (b) the intrinsic value of the TSO, which we define as the excess, if any, of the price of our Class A common stock at the time of the sale over the exercise price of the TSO.





**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

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

The consolidated statements of income data for the years ended December 31, 2005, 2006 and 2007, and the consolidated balance sheet data at December 31, 2006 and 2007, are derived from our audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 31, 2003 and 2004, and the consolidated balance sheet data at December 31, 2003, 2004 and 2005, are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period.

	2003	2004	Year Ended December 31,		2007
			2005	2006	
(in thousands, except per share amounts)					
Consolidated Statements of Income Data:					
Revenues	\$ 1,465,934	\$ 3,189,223	\$ 6,138,560	\$ 10,604,917	\$ 16,593,986
Costs and expenses:					
Cost of revenues	634,411	1,468,967	2,577,088	4,225,027	6,649,085
Research and development	229,605	395,164	599,510	1,228,589	2,119,985
Sales and marketing	164,935	295,749	468,152	849,518	1,461,266
General and administrative	94,519	188,151	386,532	751,787	1,279,250
Contribution to Google Foundation			90,000		
Non-recurring portion of settlement of disputes with Yahoo		201,000			
Total costs and expenses	1,123,470	2,549,031	4,121,282	7,054,921	11,509,586
Income from operations	342,464	640,192	2,017,278	3,549,996	5,084,400
Interest income and other, net	4,190	10,042	124,399	461,044	589,580
Income before income taxes	346,654	650,234	2,141,677	4,011,040	5,673,980
Provision for income taxes	241,006	251,115	676,280	933,594	1,470,260
Net income	\$ 105,648	\$ 399,119	\$ 1,465,397	\$ 3,077,446	\$ 4,203,720
Net income per share of Class A and Class B common stock					
Basic	\$ 0.77	\$ 2.07	\$ 5.31	\$ 10.21	\$ 13.53
Diluted	\$ 0.41	\$ 1.46	\$ 5.02	\$ 9.94	\$ 13.29

	2003	2004	As of December 31, 2005 (in thousands)			2006	2007
<b>Consolidated Balance Sheet Data:</b>							
Cash, cash equivalents and marketable securities	\$ 334,718	\$ 2,132,297	\$ 8,034,247	\$ 11,243,914	\$ 14,218,613		
Total assets	871,458	3,313,351	10,271,813	18,473,351	25,335,806		
Total long-term liabilities	33,365	43,927	107,472	128,924	610,525		
Redeemable convertible preferred stock warrant	13,871						
Deferred stock-based compensation	(369,668)	(249,470)	(119,015)				
Total stockholders' equity	588,770	2,929,056	9,418,957	17,039,840	22,689,679		

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

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

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

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

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

*regarding our future stock-based compensation charges including charges related to our TSO program;*

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

*that we may take steps to improve the relevance of the ads we deliver;*

*regarding our actions to reduce the number of accidental clicks;*

*that we will continue to make significant capital expenditure investments;*

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

*that our cost of revenues will increase in dollars and may increase as a percentage of revenues;*

*that traffic acquisition costs may increase as a percentage of revenues;*

*regarding the increase of research and development, sales and marketing and general and administrative expenses in the future;*

*regarding quarterly fluctuations in paid clicks;*

*that we will continue to make investments and acquisitions;*

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

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*regarding continued investments in international markets;*

*regarding our expectations about making future donations to the Google Foundation; as well as other statements regarding our future operations, financial condition and prospects and business strategies. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, and in particular, the risks discussed under the heading "Risk Factors" in Item 1A of this Annual Report on Form 10-K and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.*

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

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### **Overview**

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

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

*Advertisers.* We provide advertisers with several ways to deliver relevant targeted advertising including:

*Google AdWords*, an auction-based advertising program that enables advertisers to deliver relevant ads targeted to search results or web content on our web site and our Google Network members' web sites.

*Google Audio Ads*, an automated online media platform that schedules and places advertising into radio programs.

*Google Print Ads*, a web-based marketplace for placing ads in print media.

*Google TV Ads*, an automated online media platform that schedules and places advertising into TV programs.

*Google Video Ads*, user-initiated click-to-play video ads that run on our web sites and the web sites of our Google Network members.

These advertising programs provide advertisers with a cost-effective way to deliver ads to customers across Google sites and through the Google Network, which is the network of online and offline third parties that use our advertising programs to deliver relevant ads with the search results and content they provide.

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

### **How We Generate Revenue**

Advertising revenues made up 99% of our revenues in 2005, 2006 and 2007. We derive the balance of our revenues from the license of our web search technology, the license of our search solutions to enterprises and the sale and license of other products and services.

Google AdWords is our automated online program that enables advertisers to place targeted text-based and display ads on our web sites and the web sites of our Google Network members. Most of our AdWords customers pay us on a cost-per-click basis, which means that an advertiser pays us only when a user clicks on one of its ads. We also offer AdWords on a cost-per-impression basis that enables advertisers to pay us based on the number of times their ads appear on Google Network members' sites specified by the advertiser. For advertisers using our AdWords cost-per-click pricing, we recognize as revenue the fees charged advertisers each time a user clicks on one of the ads that appears next to the

search results on our web sites or next to the search results or content on

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Google Network members' sites. For advertisers using our AdWords cost-per-impression pricing, we recognize as revenue the fees charged advertisers each time their ads are displayed on the Google Network members' sites. Our AdWords agreements are generally terminable at any time by our advertisers.

Google AdSense is the program through which we distribute our advertisers' AdWords ads for display on the web sites of our Google Network members. Our AdSense program includes AdSense for search and AdSense for content.

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

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

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

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

We have entered into arrangements with certain content providers under which we distribute or license their video and other content. In a number of these arrangements we display ads on the pages of our web sites and our Google Network members' web sites from which the content is viewed and share most of the fees these ads generate with the content providers and Google Network members. We recognize these advertiser fees as revenue and the portion of the advertiser fee we pay to our content providers as content acquisition costs under cost of revenues. In some cases, we guarantee our content providers minimum revenue share or other payments.

Our agreements with content providers are typically standard agreements with no stated term and are terminable at will. Agreements with our larger members are individually negotiated. Both the standard

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agreements and the negotiated agreements contain provisions requiring us to pay the content providers for the content we license or share, and the content providers receive most of the advertiser fees generated by ads displayed on our web sites and our Google Network members' web sites.

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

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

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

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

The relevance, objectivity and quality of our search results.

The number and type of searches initiated at our web sites.

The number and type of searches initiated at, as well as the number of visits to and the content of, our Google Network members' web sites.

The advertisers' return on investment (ad cost per sale or cost per conversion) from advertising campaigns on our web sites or our Google Network members' web sites or other media compared to other forms of advertising.

The number of advertisers and the breadth of items advertised.

The total and per click or per impression advertising spending budgets of each advertiser.

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

The monetization of (or generation of revenue from) traffic on our web sites and our Google Network members' web sites. We believe that the monetization of traffic on our web sites, and our Google Network members' web sites is affected by the following factors:

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

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

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

Our minimum fee per click.



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We also generate revenue from the sale and license of our Search Appliance, which includes hardware, software and 12 to 24 months of post-contract support. We recognize as revenue the fee we charge customers ratably over the term of the post-contract support arrangement.

In the second quarter of 2006, we launched Google Checkout, an online shopping payment processing system for both consumers and merchants. We did not charge merchants any fees associated with the use of Google Checkout in 2007. On February 1, 2008, we began charging merchants who use Google Checkout to process sales 2% of the transaction amount plus \$0.20 per transaction to the extent these fees exceed 10 times the amount they spend on AdWords advertising. We recognize as revenue any fees charged merchants on transactions processed through Google Checkout. Further, cash ultimately paid to merchants under Google Checkout promotions, including cash paid to merchants as a result of discounts provided to consumers on certain transactions processed through Google Checkout, is accounted for as an offset to revenues.

In the third quarter of 2007, we acquired Postini, a provider of electronic communications security, compliance, and productivity software. We recognize as revenue the fees we charge customers for hosting enterprise applications and services ratably over the terms of the service arrangements.

## **Trends in Our Business**

Our business has grown rapidly since inception, resulting in substantially increased revenues, and we expect that our business will continue to grow. However, our revenue growth rate has generally declined over time, and we expect it will continue to do so as a result of increasing competition and the difficulty of maintaining growth rates as our revenues increase to higher levels. In addition, the main focus of our advertising programs is to provide relevant and useful advertising to our users, reflecting our commitment to constantly improve their overall web experience. As a result, we may continue to take steps to improve the relevance of the ads displayed on our web sites and our Google Network members' web sites. These steps include removing ads that generate low click-through rates or that send users to irrelevant or otherwise low quality sites and terminating Google Network members whose web sites do not meet our quality requirements. In addition, we may continue to take steps to reduce the number of accidental clicks. These steps could negatively affect our near-term advertising revenues. Both seasonal fluctuations in internet usage and traditional retail seasonality have affected, and are likely to continue to affect, our business. Internet usage generally slows during the summer months, and commercial queries typically increase significantly in the fourth quarter of each year. These seasonal trends have caused and will likely continue to cause, fluctuations in our quarterly results, including fluctuations in sequential revenue and paid click growth rates.

From the inception of the Google Network in 2002 through the first quarter of 2004, the growth in advertising revenues from our Google Network members' web sites exceeded that from our web sites, which had a negative impact on our operating margins. The operating margin we realize on revenues generated from ads placed on our Google Network members' web sites through our AdSense program is significantly lower than the operating margin we realize from revenues generated from ads placed on our web sites because most of the advertiser fees from ads served on Google Network member web sites are shared with our Google Network members. However, beginning in the second quarter of 2004, growth in advertising revenues from our web sites has exceeded that from our Google Network members' web sites. This trend has had a positive impact on our operating margins, and we expect that this will continue for the foreseeable future, although the relative rate of growth in revenues from our web sites compared to the rate of growth in revenues from our Google Network members' web sites may vary over time.

We are heavily investing in building the necessary employee and systems infrastructures required to manage our growth and develop and promote our products and services, and this may cause our operating margins to decrease. We have experienced and expect to continue to experience substantial growth in our operations as we build our research and development programs, expand our base of users, advertisers, Google Network members and content providers and increase our presence in international markets. Also, we have acquired and expect to

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continue to acquire businesses and other assets from time to time. These acquisitions generally enhance the breadth and depth of our expertise in engineering and other functional areas, our technologies and our product offerings. In addition, we are incurring significant costs and expenses to support our Google Checkout product and promote its adoption by merchants and consumers, as well as promote the distribution of certain other products, including the Google Toolbar. Our headcount growth has required us to make substantial investments in property and equipment. Our full-time employee headcount has significantly increased over the last 12 months, growing from 10,674 at December 31, 2006 to 16,805 at December 31, 2007, and we also utilize a significant number of temporary employees. We also expect to continue to make significant capital expenditure investments, including information and technology infrastructure and corporate facilities. In April 2007, we launched our employee transferable stock option (TSO) program. We modified employee options to allow them to participate in this program, and as a result we incurred a modification charge of approximately \$95 million in 2007 related to vested options, and we expect to incur an additional modification charge of approximately \$134 million related to unvested options over their remaining vesting periods through the second quarter of 2011. In addition, the fair value of each option granted under the TSO program will be greater than it would have been otherwise because of a longer expected life, resulting in more stock-based compensation per option. As a result of all of the above, the growth rate of our costs and expenses may exceed the growth rate of our revenues.

We expect our cost of revenues to continue to increase in dollars and may increase as a percentage of revenues in 2008 and in future periods, primarily as a result of forecasted increases in traffic acquisition costs, data center costs and credit card and other transaction fees, including transaction processing fees related to Google Checkout, as well as content acquisition costs. In particular, traffic acquisition costs as a percentage of advertising revenues may increase in the future if we are unable to continue to improve the monetization of traffic on our web sites and our Google Network members' web sites, particularly with those members to whom we have guaranteed minimum revenue share payments.

Our international revenues have grown as a percentage of our total revenues to 48% in 2007 from 43% in 2006. This increase in the portion of our revenues derived from international markets results largely from increased acceptance of our advertising programs, increases in our direct sales resources and customer support operations and our continued progress in developing localized versions of our products in these international markets.

**Results of Operations**

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

	Year Ended December 31,			Three Months Ended	
	2005	2006	2007	September 30,	December 31,
				2007	2007
	(unaudited)				
<b>Consolidated Statement of Income Data:</b>					
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Cost of revenues	42.0	39.8	40.1	39.3	40.5
Research and development	9.8	11.6	12.8	13.0	13.1
Sales and marketing	7.6	8.0	8.8	9.0	8.8
General and administrative	6.2	7.1	7.7	7.6	7.8
Contribution to Google Foundation	1.5				
Total costs and expenses	67.1	66.5	69.4	68.9	70.2