UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from __________ to __________

Commission file number: 000-50726

Google Inc.
(Exact name of registrant as specified in its charter)

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

1600 Amphitheatre Parkway
Mountain View, CA 94043
(Address of principal executive offices)
(Zip Code)

(650) 253-0000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐

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

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

At July 31, 2009, there were 241,971,977 shares of Google's Class A common stock outstanding and 74,599,324 shares of Google's Class B common stock outstanding.

advertising revenues may increase in the future if we are unable to continue to improve the monetization or generation of revenues from traffic on our web sites and our Google Network members' web sites, particularly with those members to whom we have guaranteed minimum revenue share payments.

Our international revenues have grown as a percentage of our total revenues from 52% in the three months ended June 30, 2008 to 53% in the three months ended June 30, 2009. This increase in the portion of our revenues derived from international markets results largely from increased acceptance of our advertising programs, and our continued progress in developing localized versions of our products in these international markets. The increase in the proportion of international revenues derived from international markets increases our exposure to fluctuations in foreign currency to U.S. dollar exchange rates. For example, in the second quarter of 2009, the general strengthening of the U.S. dollar relative to foreign currencies (primarily the British pound and the Euro) as compared to the second quarter of 2008 had an unfavorable impact on our revenues. We have a foreign exchange risk management program that is designed to reduce our exposure to fluctuations in foreign currencies; however, this program will not fully offset the effect of fluctuations on our revenues and earnings.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
		(unaudited)		
Consolidated Statements of Income Data:				
Revenues	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of revenues	40.0	38.2	40.4	38.2
Research and development	12.7	12.8	12.8	12.2
Sales and marketing	9.0	8.5	8.8	8.2
General and administrative	8.9	6.6	8.4	7.3
Total costs and expenses	70.6	66.1	70.4	65.9
Income from operations	29.4	33.9	29.6	34.1
Interest and other income (expense), net	1.1	(0.3)	2.1	(0.1)
Income before income taxes	30.5	33.6	31.7	34.0
Provision for income taxes	7.3	6.7	7.5	7.6
Net income	23.2%	26.9%	24.2%	26.4%

Revenues

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
		(unaudited)		
Advertising revenues:				
Google web sites	$ 3,530.1	$ 3,652.6	$ 6,930.6	$ 7,345.5
Google Network web sites	1,655.3	1,683.5	3,341.4	3,321.5
Total advertising revenues	5,185.4	5,336.1	10,272.0	10,667.0
Licensing and other revenues	181.8	186.8	281.3	364.9
Revenues	$ 5,367.2	$ 5,522.9	$ 10,553.3	$ 11,031.9

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
		(unaudited)		
Advertising revenues:				
Google web sites	66%	66%	66%	67%
Google Network web sites	31	31	31	30
Total advertising revenues	97	97	97	97
Google web sites as % of advertising revenues	68	68	67	69
Google Network web sites as % of advertising revenues	32	32	33	31
Licensing and other revenues	3%	3%	3%	3%

The growth in our advertising revenues from the three months ended June 30, 2008 to the three months ended June 30, 2009, and from the six months ended June 30, 2008 to the six months ended June 30, 2009 resulted from an increase in the number of paid clicks generated through our advertising programs as well as hedging gains recognized from our foreign currency risk management program, partially offset by a decrease in the average cost-per-click paid by our advertisers. The increase in the number of paid clicks generated through our advertising programs was due to an increase in aggregate traffic, certain monetization improvements, and the continued global expansion of our products, our advertiser base, and our user base. The decrease in the average cost-per-click paid by our advertisers was primarily the result of the general strengthening of the U.S. dollar relative to foreign currencies (primarily the British pound and the Euro), as well as changes in geographical mix due to traffic growth in emerging markets compared to more mature markets. In addition, the decrease in the average cost-per-click was due to how we believe advertisers managed their advertising costs in response to continuing weak economic conditions. Specifically, we believe that as a result of the general economic downturn, advertisers, in aggregate, have lowered their bids for keywords in response to a decrease in the sales they are able to make per paid click.

From the three months ended June 30, 2008 to the three months ended June 30, 2009, advertising revenue growth for Google web sites and Google Network members' sites resulted primarily from an increase in aggregate traffic, certain monetization improvements, and the continued global expansion of our products, our advertiser base and our user base. From the six months ended June 30, 2008 to the six months ended June 30, 2009, advertising revenue growth for Google web sites resulted primarily from an increase in aggregate traffic, certain monetization improvements, and the continued global expansion of our products, our advertiser base and our user base. From the six months ended June 30, 2008 to the six months ended June 30, 2009, revenues generated from Google Network members' sites were relatively unchanged.

Improvements in our ability to ultimately monetize increased traffic primarily relate to enhancing the end user experience, including providing end users with ads that are more relevant to their search queries or to the content on the Google Network members' web sites they visit. These improvements have included, for instance, continued enhancements to the web search results page, a reduction in minimum cost-per-click to show more good quality ads, a change to the formula used to determine which ads appear at the top of our search results pages, and a change to the clickable area around our AdSense for content text-based ads to only the title and URL to reduce the number of accidental clicks. In addition, these improvements have included certain changes to further enhance the accuracy of our quality scoring, which is our measurement of an ad's click-through rate and other relevancy factors.

Aggregate paid clicks on Google web sites and our Google Network members' web sites increased 15% from the three months ended June 30, 2008 to the three months ended June 30, 2009 and 16% from the six months ended June 30, 2008 to the six months ended June 30, 2009 and decreased 2% from the three months ended March 31, 2009 to the three months ended June 30, 2009. Average cost-per-click on Google web sites and our Google Network members' web sites decreased 13% from the three and six months ended June 30, 2008 to the three and six months ended June 30, 2009 and increased 5% from the three months ended March 31, 2009 to the three months ended June 30, 2009. The rate of change in aggregate paid clicks and average cost-per-click, and their correlation with the rate of change in revenues, has fluctuated or may in the future fluctuate because of various factors including the revenue growth rates on our web sites compared to those of our Google Network members, advertiser competition for keywords, changes in foreign currency exchange rates, seasonality, the fees advertisers are willing to pay based on how they manage their advertising costs, and the recent economic downturn. In addition, traffic growth in emerging markets compared to more mature markets and across various advertising verticals also contributes to these fluctuations. Changes in aggregate paid clicks and average cost-per-click may not be indicative of our performance or advertiser experiences in any specific geographic market, vertical, or industry.

Revenues by Geography

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
		(unaudited)		
United States	48%	47%	48%	48%
United Kingdom	14%	13%	15%	13%
Rest of the world	38%	40%	37%	39%

The growth in international revenues (other than the United Kingdom) as a percentage of consolidated revenues from the three and six months ended June 30, 2008 to the three and six months ended June 30, 2009 resulted largely from increased acceptance of our advertising programs and our continued progress in developing localized versions of our products for these international markets, as well as hedging gains recognized under our foreign exchange risk management program, partially offset by the effect of the general economic downturn and a general strengthening of the U.S dollar compared to foreign currencies (primarily the Euro). The decrease in revenues from the United Kingdom as a percentage of consolidated revenues from the three and six months ended June 30, 2008 to the three and six months ended June 30, 2009 resulted largely from the effect of the general economic downturn and a general strengthening of the U.S. dollar compared to the British pound, partially offset by hedging gains recognized to revenues under our foreign exchange risk management program during these periods.

The general strengthening of the U.S. dollar relative to foreign currencies (primarily the British pound and the Euro) from the three months ended June 30, 2008 to the three months ended June 30, 2009 had an unfavorable impact on our international revenues (international revenues increased $113.6 million during this period). Had foreign exchange rates remained constant in these periods, our total revenues would have been approximately $497 million, or 9.0%, higher in the three months ended June 30, 2009. This is before consideration of hedging gains recognized to revenues of $123.7 million and $4.8 million in the three months ended June 30, 2009 and June 30, 2008.

The general strengthening of the U.S. dollar relative to foreign currencies (primarily the British pound and the Euro) from the six months ended June 30, 2008 to the six months ended June 30, 2009 had an unfavorable impact on our international revenues (international revenues increased $344.9 million during this period). Had foreign exchange rates remained constant in these periods, our total revenues would have been approximately $926 million, or 8.4%, higher in the six months ended June 30, 2009. This is before consideration of hedging gains recognized to revenues of $277.8 million and $4.9 million in the six months ended June 30, 2009 and June 30, 2008.

Although we expect to continue to make investments in international markets, they may not result in an increase in our international revenues as a percentage of total revenues in the remainder of 2009 or thereafter. See Note 13 of Notes to Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information about geographic areas.

Costs and Expenses

Cost of Revenues.

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

Certain AdSense agreements obligate us to make guaranteed minimum revenue share payments to Google Network members based on their achieving defined performance terms, such as number of search queries or advertisements displayed. These fees may be paid in advance or in arrears and are non-refundable but are subject to adjustment based on the achievement of the defined performance terms. In addition, the arrangements are terminable at will, although under the terms of certain contracts we or our Google Network members may be subject to penalties in the