FERRO CORP
Form 424B5
August 06, 2010

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Filed Pursuant To Rule 424(b)(5)
Registration No. 333-168324

PROSPECTUS SUPPLEMENT
(To prospectus dated July 27, 2010)

Ferro Corporation
$250,000,000
7.875% Senior Notes due 2018

The notes will mature on August 15, 2018. Interest will accrue from August 24, 2010 and the first interest payment date will be February 15, 2011.

We may redeem some or all of the notes at on or after August 15, 2014 at the redemption prices set forth in this prospectus supplement. We may redeem up to 35% of the aggregate principal amount of the notes on or prior to August 15, 2013 with the net proceeds from certain equity offerings. We may also redeem some or all of the notes at any time prior to August 15, 2014 at a redemption price equal to the make-whole amount set forth in this prospectus supplement. In addition, if we undergo a change of control, we may be required to offer to repurchase the notes at the repurchase price set forth in this prospectus supplement.

The notes will be unsecured senior obligations, will rank equal in right of payment to any of our existing or future senior unsecured debt, and will rank senior to any of our subordinated debt. The notes will not be guaranteed by any of our subsidiaries. The notes will effectively rank junior to any of our secured debt to the extent of the value of the assets securing such indebtedness, and will be structurally subordinated to all liabilities of our subsidiaries. For a more detailed description of the notes, see Description of the Notes.

Investing in our notes involves risks. See Risk Factors beginning on page S-14 of this prospectus supplement and in our annual report on Form 10-K for the fiscal year ended December 31, 2009, which is incorporated by reference herein. We urge you to carefully read the Risk Factors section before you make your investment decision.

	Per Note	**Total**
Public Offering Price	100.00%	$ 250,000,000
Underwriting Discount	2.00%	$ 5,000,000
Proceeds to Ferro Corporation (Before Expenses)	98.00%	$ 245,000,000

Interest on the notes will accrue from August 24, 2010 to the date of delivery.

Credit Suisse expects to deliver the notes on or about August 24, 2010, subject to conditions.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these debt securities or determined if this prospectus supplement or the prospectus to which it relates is accurate or complete. Any representation to the contrary is a criminal offense.

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes.

Credit Suisse	**J.P. Morgan**	**BofA Merrill Lynch**	**Citi**
PNC Capital Markets LLC			**KeyBanc Capital Markets**
Fifth Third Securities, Inc.			**RBS**

The date of this prospectus supplement is August 5, 2010.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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ABOUT THIS PROSPECTUS SUPPLEMENT

We provide information to you about this offering in two separate documents. The accompanying prospectus provides general information about us and the debt securities we may offer from time to time. This prospectus supplement describes the specific details regarding this offering. Generally, when we refer to the prospectus, we are referring to both documents combined. Additional information is incorporated by reference in this prospectus supplement. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

You should rely only on information contained or incorporated by reference into this prospectus supplement, in the accompanying prospectus and in any free writing prospectus that we may provide to you. We have not, and the underwriters have not, authorized anyone to provide you with different information. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus, any free writing prospectus or any document incorporated by reference is accurate as of any date other than the date mentioned on the cover page of these documents. This document may be used only where it is legal to sell the notes. We are not, and the underwriters are not, making offers to sell the notes in any jurisdiction in which an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make an offer or solicitation.

Before you invest in the notes, you should read the registration statement to which this document forms a part, including the documents incorporated by reference herein.

References in this prospectus supplement to the terms we, us, our, the Company or Ferro or other similar terms Ferro Corporation and its consolidated subsidiaries, unless we state otherwise or the context indicates otherwise.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act. We file reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. Our SEC filings are available over the Internet at the SEC s web site at http://www.sec.gov. You may read and copy any reports, statements and other information filed by us at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call 1-800-SEC-0330 for further information on the Public Reference Room. You may also inspect our SEC reports and other information at the New York Stock Exchange, 20 Broad Street, New York, New York 10005, or at our web site at http://www.ferro.com. We do not intend for information contained on or accessible through our web site to be part of this prospectus supplement or the accompanying prospectus, other than documents that we file with the SEC that are incorporated by reference in this prospectus supplement and the accompanying prospectus.

INFORMATION WE INCORPORATE BY REFERENCE

The SEC allows us to incorporate by reference the information in documents we file with it, which means that we can disclose important information to you by referring to those documents. The information incorporated by reference is considered to be part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information. Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in or omitted from this prospectus supplement, or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

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We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the completion of the offerings of the notes described in this prospectus supplement:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2009;
- our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010; and
- our Current Reports on Form 8-K filed on February 18, 2010, March 3, 2010, April 20, 2010, May 6, 2010, May 10, 2010, June 2, 2010, June 28, 2010, July 1, 2010, July 20, 2010 and July 27, 2010.

We will not, however, incorporate by reference in this prospectus supplement any documents or portions thereof that are not deemed filed with the SEC, including any information furnished pursuant to Item 2.02 or Item 7.01 of our current reports on Form 8-K unless, and except to the extent, specified in such current reports.

We will provide you with a copy of any of these filings (other than an exhibit to these filings, unless the exhibit is specifically incorporated by reference into the filing requested) at no cost, if you submit a request to us by writing or telephoning us at the following address and telephone number:

Ferro Corporation
1000 Lakeside Avenue
Cleveland, Ohio 44114
Telephone Number: (216) 641-8580
Attn: Secretary

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, including the documents incorporated by reference, contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Exchange Act. These statements may be identified by the use of predictive, future-tense or forward-looking terminology, such as believes, anticipates, expects, estimates, intends, may, will or simila These statements speak only as of the date of this prospectus supplement or the date of the document incorporated by reference, as applicable, and we undertake no ongoing obligation, other than that imposed by law, to update these statements. These statements appear in a number of places in this prospectus supplement, including the documents incorporated by reference, and relate to, among other things, our intent, belief or current expectations with respect to: our future financial condition, results of operations or prospects; our business and growth strategies; and our financing plans and forecasts. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those contained in or implied by the forward-looking statements as a result of various factors, some of which are unknown, including, without limitation:

- demand in the industries into which we sell our products may be unpredictable, cyclical or heavily influenced by consumer spending;
- the effectiveness of our efforts to improve operating margins through sales growth, price increases, productivity gains, and improved purchasing techniques;
- our ability to successfully implement and/or administer our restructuring programs;

our ability to access capital markets, borrowings, or financial transactions;

our borrowing costs could be affected adversely by interest rate increases;

the availability of reliable sources of energy and raw materials at a reasonable cost;

competitive factors, including intense price competition;

currency conversion rates and changing global economic, social and political conditions;

the impact of our performance on our ability to utilize our significant deferred tax assets;

liens on our assets by our lenders affect our ability to dispose of property and businesses;

restrictive covenants in our credit facilities could affect our strategic initiatives and liquidity;

increasingly aggressive domestic and foreign governmental regulations on hazardous materials and regulations affecting health, safety and the environment;

our ability to successfully introduce new products;

stringent labor and employment laws and relationships with our employees;

our ability to fund employee benefit costs, especially post-retirement costs;

risks and uncertainties associated with intangible assets;

potential limitations on our use of operating loss carryforwards and other tax attributes due to significant changes in the ownership of our common stock;

our presence in the Asia-Pacific region where it can be difficult to compete lawfully;

the identification of any material weaknesses in our internal controls in the future could affect our ability to ensure timely and reliable financial reports;

uncertainties regarding the resolution of pending and future litigation and other claims;

other factors affecting our business beyond our control, including disasters, accidents, and governmental actions;

our ability to successfully complete the tender offer for our outstanding convertible notes and enter into a new credit facility; and

those factors set forth in Risk Factors.

These factors and the other risk factors described in this prospectus supplement, including the documents incorporated by reference, are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Consequently, there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to or effects on us.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information about us and the notes being offered pursuant to this prospectus supplement and the accompanying prospectus. This summary is not complete and may not contain all of the information that you should consider prior to investing in the notes. For a more complete understanding of our company, we encourage you to read this entire document, including the information incorporated by reference in this document and the other documents to which we have referred.

Our Company

We are a leading producer of value-added specialty materials and chemicals that are sold to a broad range of manufacturers who, in turn, make products for many end-use markets. Our business structure is designed to drive product development, customer engagement and growth. Our Electronic, Color and Glass Materials Group leverages our core strengths in technology to drive growth and maintain our leading market positions. Our Polymer and Ceramic Engineered Materials Group employs our high-volume manufacturing capabilities to maintain leading market positions while making cost structure improvements and enhancing cash flow.

Through manufacturing sites around the world, we produce the following types of products in our two business groups:

Electronic, Color and Glass Materials Conductive metal pastes and powders, dielectrics, polishing materials, high-quality glazes, enamels, pigments, dinnerware decoration colors, and other performance materials; and

Polymer and Ceramic Engineered Materials Polymer specialty materials, engineered plastic compounds, pigment dispersions, glazes, frits, porcelain enamel, pigments, and high-potency pharmaceutical active ingredients.

We refer to our products as performance materials and chemicals because we formulate them to perform specific functions in the manufacturing processes and end products of our customers. The products we develop often are delivered to our customers in combination with customized technical service. The value of our products stems from the benefits they deliver in actual use.

Since 2006, we have implemented wide-ranging restructuring programs and strategic initiatives designed to reduce costs, drive growth, enhance our profitability and sustain our leading market positions. These initiatives include consolidation of certain manufacturing facilities in Europe, the United States, Latin America and Asia-Pacific, reduction in our staffing levels and selling, general and administrative, or SG&A, expenses, and realignment of our businesses and portfolio to focus on higher-margin, higher-growth products and investment in strategic regional markets such as Asia-Pacific. We believe these initiatives provide us with opportunities to drive growth, expand margins, generate strong free cash flow, create significant operating leverage and benefit from a continued sales volume recovery in our end markets.

We generated net sales of $1,036 million and $1,658 million for the six months ended June 30, 2010 and for the year ended December 31, 2009, respectively. We report under six reporting segments: Electronic Materials, Color and Glass Performance Materials, Performance Coatings, Polymer Additives, Specialty Plastics and Pharmaceuticals.

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Our Competitive Strengths

Leading Positions in Attractive Niche Markets and Products. We believe that we enjoy worldwide product sales leadership within many of our businesses. We believe that our competitive positions are sustainable due to our leading-edge product portfolio and product development pipeline, technological leadership, exposure to high-growth niche markets, global manufacturing infrastructure, and a loyal customer base. In addition, we have a technical sales and service-oriented business model, the research and development infrastructure required for new product development and close customer interaction and a strong global brand. Many of our products are characterized as specialty products, as they perform specific functions in the manufacturing processes and/or in the end products of our customers. For example, we are a leader in conductive pastes for solar cells with a complete offering of conductive metallization products. Our customer relationships with leading solar cell manufacturers around the world are supported by patents and know-how in conductive metal powders, electronic glasses, understanding of the interface between our products and silicon, and in-depth knowledge of how these factors influence the performance of our customers end products.

Ferro product leadership examples
(Based on management estimates
for 2008 and 2009)

#1 worldwide in conductive pastes for solar cells
#1 worldwide in porcelain enamel coatings
#1 worldwide in pigments for digital tile printing
#1 in North American metallic stearates, #2 worldwide
#1 worldwide in plasticizers

Critical Proprietary Technology. We leverage our technology to increase our participation in value-added, performance-related product offerings. Our competitive positions are supported by the following core competencies:

Particle Development and Engineering: synthesis and isolation of particles with specific size distributions and properties, such as particle size distribution control in pastes for solar cells;

Color Science and Technology: repeatable creation, matching and characterization of colors for coatings and bulk materials, such as beverage bottle decoration materials that promote consumer brand identification;

Glass Science and Technology: high-temperature inorganic chemistry and glass formation; processing knowledge, such as value-added sealing glasses for microelectromechanical systems;

Surface Application Technology: coating and decorating technology and surface finishing, such as products and applications understanding related to high-speed, high-yield tile coating manufacturing processes; and

Formulation Technology: combination of materials to create new products with enhanced properties, such as high-performance automobile glass enamels.

We are also actively engaged in our customers advanced product development and manufacturing yield improvement initiatives. Our core technical competencies have allowed us not only to develop strong customer relationships, but also to improve our product portfolio by transitioning toward higher-margin businesses, such as our conductive metal pastes for solar cell applications.

Significant Geographic, Product and End-Use Market Diversity. We have a diversified portfolio of businesses within which we focus on specific applications and products where we can add value to our

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customers products and processes. We believe this diversity decreases our exposure to any one end market and helps protect our business from the negative effects of economic down cycles. Further, we have a balanced geographic exposure, with 54% of 2009 sales generated from outside the United States. We have a well-established infrastructure and customer relationships in key Asia-Pacific markets and are focused on growing our presence in these markets.

The following charts are based on our 2009 net sales and illustrate the diversity of the end markets we serve, the diversity of our production base and the sizes of our segments:

Net Sales by Application[1] **Net Sales by Region** **Net Sales by Segment**

(1) Based on our estimate of our customers application markets.

Long-term Relationships with a Diverse and Stable Customer Base. Our strong focus on technical support, customer service and unique expertise in customized product formulations has created long-term customer relationships.

Our customer base is well diversified both geographically and by end market. We have over 7,000 active customers worldwide. Our top ten customers accounted for less than 15% of our total sales for the year ended December 31, 2009. Our ability to develop customized, value-added solutions has deepened our customer relationships across the globe. For example, we are a conductive metal paste supplier to a majority of the top 15 global solar cell manufacturers. Our products generally are a small portion of the total cost of our customers products, but they can be critical to the appearance or functionality of those products. We believe our global capabilities and the significant capital investment we have made around the world provide us with an advantage when servicing global customers. Because of the long lead time required to develop and qualify replacement sources of our products, our customers would incur significant costs to switch to new suppliers. Additionally, as a result of the strong customer service and applications support we provide, we tend to have long-term relationships with our customers.

Experienced and Proven Management Team. We have an experienced management team whose members average more than 25 years of business experience. Our management is firmly committed to continue transforming Ferro by driving growth and margin expansion, further reducing costs, streamlining operations and optimizing our product portfolio to strengthen and expand our existing businesses. Since he became President and Chief Executive Officer of our company in November 2005, James Kirsch, along with other members of our senior management team, has introduced several initiatives that have resulted in significant improvement in our cost structure and product mix. For example, we have reduced costs sufficiently since January 1, 2008, to lower our break-even sales by more than $100 million per quarter.

Our Business Strategy

Building on our strengths, we plan to continue our existing strategy to increase revenue and cash flow, expand margins and improve profitability through:

- Continued focus on core competencies to extend or penetrate markets, deliver growth and increase profitability;

- Further rationalization of our manufacturing assets to reduce costs and expenses, particularly in Europe and North America; and

Additional geographical expansion by investing in manufacturing assets and customer technical support capabilities in the Asia-Pacific region and other key emerging markets.

Focus on Growth Initiatives. We are focused on enhancing our growth and market positions through product and geographic expansion. We have been moving into adjacent markets, developing new applications and introducing environmentally friendly product alternatives. In addition, we have been expanding our presence in the emerging markets of Asia-Pacific, Eastern Europe, the Middle East and North Africa. We have a number of compelling growth platforms across our businesses such as materials for solar cells, green chemistry alternatives and high-performance coatings. We continue to make investments to enhance our capabilities to more effectively serve our customers, such as the construction of an electronic materials manufacturing facility in Suzhou, China, for the solar market; the development of organic colors and low-lead decorative enamels; the development of pigmented inks for the decoration of tile using digital printing equipment; and the commissioning of a world-scale tile color plant in Castellon, Spain to serve expected growth markets in Eastern Europe and North Africa.

In addition, we believe that growth in our end markets as a result of the global economic recovery, combined with the anticipated benefits of restructuring cost savings and other strategic initiatives, will lead to margin expansion and profitability improvements.

Optimize Our Business Portfolio. We assess on an ongoing basis our portfolio of businesses, as well as our financial metrics and capital structure, with the objectives of leveraging our global scale, realigning and lowering our cost structure and optimizing capacity utilization. As part of this process, from time to time we evaluate the possible divestiture of businesses that are not critical to our core strategic objectives and, where appropriate, pursue the sale of such businesses. We also evaluate and pursue acquisition opportunities that we believe will enhance our strategic position.

Continue to Pursue Operational Efficiencies. We are focused on our plan to unlock value through rigorous, company-wide operational improvement initiatives. Our management has focused on three principal areas of this strategy: (1) implement a strict set of performance objectives and global operational metrics; (2) restructure assets, rationalize our manufacturing footprint and streamline our operations to reduce costs; and (3) invest in our infrastructure and capabilities to revitalize products and adjust market positioning to accelerate growth.

We developed, initiated and continue to implement several restructuring programs across our business segments with the objectives of leveraging our global scale, realigning and lowering our cost structure, improving our product portfolio and optimizing capacity utilization. The programs will impact our operations in Europe, North America and Asia-Pacific. Similar restructuring and cost reduction programs have reduced annual fixed manufacturing costs, SG&A expenses and corporate costs by over $150 million from 2007 through June 30, 2010. Since January 1, 2008, we have closed or are in the process of closing eleven plants, reduced worldwide staffing by 20% and reduced SG&A expenses by over 15%. We believe these actions have lowered our break-even sales by more than $100 million per quarter.

The following restructuring programs are expected to have a positive impact on our cost structure in 2010 and future years and are moving us substantially closer to our strategic goals:

Restructuring Program in France

In January 2009, we initiated additional restructuring activities within our Color and Glass Performance Materials operations in Europe. We have discontinued smelting, milling and other manufacturing operations in Limoges, France. These activities are being consolidated at our other facilities in St. Dizier, France; Frankfurt and Colditz, Germany; and Almazora, Spain. In addition, all sales, technical service, and research and development activities previously done in Limoges are being transferred to St. Dizier and Frankfurt. This restructuring action is expected to be substantially complete by the end of 2010. When the restructuring is completed, the Limoges site will be closed. Cash costs to complete these programs are estimated to be approximately $25 million through 2010, including severance expense and other cash expenses.

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Restructuring Program in Spain

In June 2009, we initiated additional restructuring activities at our Tile Coatings Systems operation in Nules, Spain. As part of the European restructuring efforts initially announced in 2006, this program has resulted in the discontinuation of the production of frits and glazes at this site. The production has been consolidated at our facility in Almazora, Spain. These restructuring activities are complete, and cash costs of $2 million were incurred in connection with these activities.

Restructuring Program in Australia

In November 2009, we initiated restructuring activities within our Porcelain Enamel and Color and Glass Performance Materials businesses in Australia. This restructuring program will close three manufacturing facilities at Moorabbin and Geelong, Australia, and transfer the manufacturing activities to lower-cost facilities in China, Thailand and Indonesia. After completion of this program, Ferro Australia s business will be reduced to sales, technical services, import, export and warehousing for servicing Australia, New Zealand and other markets in the region. Cash costs to complete these programs are estimated to be approximately $4 million in 2010, including severance expense and other cash expenses.

Restructuring Program in Portugal

In March 2010, we initiated restructuring activities within our Color and Glass Performance Materials and Specialty Plastics businesses in Castanheir do Ribatejo, Portugal. This restructuring program will consolidate operations into our existing manufacturing site in Almazora, Spain and will result in discontinuing dinnerware frit and plastics manufacturing operations in Portugal by the end of 2010. Cash costs to complete the restructuring are estimated to be approximately $10 million in 2010, including severance costs and other cash expenses.

Restructuring Programs in the Netherlands

In April 2010, we announced restructuring activities within our Specialty Plastics business in Rotterdam, the Netherlands. This restructuring program will consolidate plastics production into our existing manufacturing site in Almazora, Spain and will result in closing the manufacturing site in the Netherlands. Cash costs to complete the restructuring are estimated to be approximately $9 million in 2010, including severance costs and other cash expenses.

Additionally, in May 2010, we announced that we expected to discontinue manufacturing of dielectric products, which is part of our Electronic Materials business, in Uden, the Netherlands. Products currently manufactured at the site will be transferred to other locations or discontinued and the manufacturing site will be closed. Cash costs to complete the restructuring are expected to be approximately $13 million, including severance costs and other cash expenses.

Other Cost Reduction Programs

In 2010, we initiated a number of other cost reduction programs. The additional cash costs required to complete these programs and fully realize these operational improvements are estimated to be approximately $5 million in 2010, including severance costs, capital expenditures and other cash expenses.

Debt Refinancing

Tender Offer. On July 27, 2010, we commenced an offer to purchase any and all of our outstanding 6.50% convertible senior notes due 2013, which we refer to as our convertible notes. As of June 30, 2010, $172.5 million aggregate principal amount of our convertible notes were outstanding. The tender offer for our convertible notes is conditioned upon (a) the completion of this offering and (b) our entry into a new credit facility and the availability of funds thereunder.

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New Credit Facility. In connection with the tender offer and this offering, we anticipate entering into a new credit facility. We are currently in negotiations with the lenders under our existing credit facility regarding a new credit facility, although we have not yet obtained a commitment for the full amount of the facility or finalized the credit documents governing the new credit facility. We expect that the new credit facility will provide up to an aggregate amount of $350 million of borrowings.

Although we anticipate entering into a new credit facility concurrently with the settlement of the tender offer, we may enter into a new credit facility prior to such time.

Use of Proceeds. We intend to use a portion of the net proceeds from this offering to repay all of the remaining term loans and revolving borrowings outstanding under our existing credit facility. If the tender offer is consummated, the remaining net proceeds from this offering will be used, along with borrowings under the new credit facility, to repurchase all the convertible notes that are tendered and not validly withdrawn pursuant to the tender offer, including the payment of all accrued and unpaid interest on the convertible notes and all premiums and transaction expenses associated therewith. If this offering is consummated prior to the purchase of our convertible notes pursuant to the tender offer, upon repayment of the remaining term loans and revolving borrowings outstanding under our existing credit facility, such remaining net proceeds from this offering will be temporarily held as cash and cash equivalents. If the tender offer is not consummated, the remaining net proceeds from this offering will be used for general corporate purposes. See Use of Proceeds and Capitalization.

We refer to this offering, the tender offer for our convertible notes and any new credit facility that we may enter into, collectively, as the Refinancing Transactions.

Corporate Information

Our principal executive offices are located 1000 Lakeside Avenue, Cleveland, Ohio 44114. Our telephone number is (216) 641-8580. Our website is www.ferro.com. The information contained on or accessible through our website is not part of this prospectus supplement, other than the documents that we file with the SEC that are incorporated by reference into this prospectus supplement.

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The Offering

Issuer	Ferro Corporation.
Notes Offered	\$250.0 million aggregate principal amount of 7.875% Senior Notes due August 15, 2018.
Price	100% of the principal amount plus accrued interest, if any, from August 24, 2010.
Maturity Date	August 15, 2018.
Interest	7.875% per annum on the principal amount, payable semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2011.
Ranking	The notes are our unsecured, senior obligations and rank: pari passu in right of payment with all of our existing and future senior indebtedness; and senior in right of payment to any future subordinated indebtedness. As of June 30, 2010, we had outstanding approximately \$179.8 million principal amount (or face value) of unsecured indebtedness with which the notes would rank equally. The notes will be effectively subordinated to our secured indebtedness, including all borrowings under either our existing credit facility or our proposed new credit facility, to the extent of the assets securing such credit facility. As of June 30, 2010, we had \$181.4 million of secured indebtedness outstanding under our existing credit facility. We expect that the new credit facility will provide up to an aggregate amount of \$350 million of borrowings.
Guarantors	None. Because the notes will not be guaranteed by any of our subsidiaries, the notes will also be structurally subordinated to all the liabilities of our subsidiaries, including trade payables. As of June 30, 2010, our subsidiaries had approximately \$12.4 million of indebtedness and \$146.0 million of trade payables outstanding and had guaranteed indebtedness of approximately \$181.4 million under our existing credit facility, all of which consists of term loans that will be repaid in connection with the Refinancing Transactions. Our new credit facility, if entered into, will be guaranteed by certain of our subsidiaries. The notes would be structurally subordinated to all liabilities of our subsidiaries under any new credit facility.
Optional Redemption	

We may redeem some or all of the notes on or after August 15, 2014 at the redemption prices listed under Description of the Notes Optional Redemption. In addition, on or prior to August 15, 2013, we may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain equity offerings. We may also redeem some or all of the notes prior to August 15, 2014, at a redemption price equal to the greater of the principal amount of such notes and the make-whole

	premium set forth under Description of the Notes Optional Redemption plus, in each case, accrued and unpaid interest.
Change of Control	Upon certain change of control events, we will be required to make an offer to purchase each holder s notes at a repurchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. See Description of the Notes Repurchase at the Option of Holders Change of Control.
Certain Covenants	The indenture governing the notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: incur additional indebtedness; pay dividends or make other distributions or repurchase stock; make investments; create liens; sell assets; engage in transactions with affiliates; and merge or consolidate with other companies or sell substantially all of our assets. These covenants are subject to a number of important exceptions and limitations, which are described under Description of the Notes.
Form and Denomination	The notes will be issued only in denominations of $2,000 and integral multiples of $1,000 in excess of $2,000. The notes will be represented by one or more global notes, deposited with the trustee as a custodian for The Depository Trust Company, or DTC, and registered in the name of Cede & Co., DTC s nominee. Beneficial interests in the global notes will be shown on, and any transfers will be effective only through, records maintained by DTC and its participants.
Use of Proceeds	We estimate that the net proceeds from the sale of our notes in this offering, after deducting underwriting discounts and estimated offering expenses, will be approximately $244.0 million. We intend to use a portion of the net proceeds from this offering to repay all of the remaining term loans and revolving borrowings outstanding under our existing credit facility. If the tender offer is consummated, the remaining net proceeds from this offering will be used, along with borrowings under the new credit facility, to repurchase all the convertible notes that are tendered and not validly withdrawn pursuant to the tender offer, including the payment of all accrued and unpaid interest on the convertible notes and all premiums and transaction expenses associated therewith. If this offering is

consummated prior to the purchase of our convertible notes pursuant to the tender offer, upon repayment of the remaining term loans and revolving borrowings outstanding under our existing credit facility, such remaining net proceeds from this offering will be temporarily held as cash and cash equivalents.

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	If the tender offer is not consummated, the remaining net proceeds from this offering will be used for general corporate purposes. See Use of Proceeds and Capitalization.
Trustee and Paying Agent	Wilmington Trust FSB
Listing and Trading	The notes will not be listed on any securities exchange.
Absence of a Public Market for the Notes	The notes are new securities, and there is currently no established market for the notes. The underwriters have advised us that they currently intend to make a market in the notes. However, they are not obligated to do so, and may discontinue any market making with respect to the notes without notice.
Risk Factors	See Risk Factors and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of factors you should carefully consider before investing in the notes.
Further Issuances	We may create and issue further notes ranking equally and ratably in all respects with the notes offered by this prospectus supplement, so that such further notes will be consolidated and form a single series with the notes offered by this prospectus supplement and will have the same terms as to status, redemption or otherwise.

Conflicts of Interest

Certain of the underwriters and their affiliates perform various financial advisory, investment banking and commercial banking services from time to time for us and our affiliates, for which they have received or may receive customary fees. A portion of the net proceeds from this offering will be used to repay, among other lenders, certain of the underwriters or their affiliates who are lenders under the term loans and the revolving borrowings outstanding under our existing credit facility or who may be lenders under any new credit facility. A portion of the net proceeds from this offering will also be used to purchase all of the convertible notes that are tendered and not validly withdrawn pursuant to the tender offer. Certain of the underwriters and/or their affiliates are holders of our convertible notes and may receive proceeds from this offering in connection with the tender offer. See Use of Proceeds. This offering is being made in accordance with National Association of Securities Dealers, or NASD, Rule 2720(a)(2) and Financial Industry Regulatory Authority, or FINRA, Rule 5110, whereby J.P. Morgan Securities Inc. has assumed the responsibilities of acting as a qualified independent underwriter. See Underwriting (Conflicts of Interest).

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Summary Consolidated Financial Data

The table below sets forth a summary of our consolidated financial data for the periods presented. We derived the financial data as of and for the years ended December 31, 2009, 2008 and 2007 from our audited financial statements. The consolidated financial data as of and for the six months ended June 30, 2010 and 2009 are derived from our unaudited financial statements. The interim unaudited consolidated financial data have been prepared on the same basis as the annual consolidated financial data and include, in the opinion of management, all adjustments, consisting of normal and recurring adjustments, necessary to present fairly the data for such periods and may not necessarily be indicative of full year results. Prospective investors should read the summary of consolidated financial data in conjunction with our consolidated financial statements, the related notes and other financial information incorporated by reference into this prospectus supplement.

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
			(In thousands)		
Statement of Operations Data:					
Net sales	$ 1,036,350	$ 757,086	$ 1,657,569	$ 2,245,152	$ 2,147,904
Cost of sales	807,086	636,611	1,343,297	1,841,485	1,745,445
Gross profit	229,264	120,475	314,272	403,667	402,459
Selling, general and administrative expenses	140,800	130,608	272,259	297,119	314,878
Impairment charges(1)	2,202		8,225	80,205	128,737
Restructuring charges(2)	32,335	1,089	11,112	25,937	16,852
Other expense (income):					
Interest expense	26,677	28,364	63,918	51,290	57,837
Interest earned	(464)	(473)	(896)	(714)	(1,505)
Loss on extinguishment of debt				5,531	
Foreign currency losses, net	3,246	2,929	3,827	742	1,254
Loss on sale of business					1,348
Miscellaneous (income) expense, net(3)	(4,822)	854	(618)	(357)	(1,488)
Income (loss) before income taxes	29,290	(42,896)	(43,555)	(56,086)	(115,454)
Income tax expense (benefit)	22,508	(12,095)	(3,515)	(3,204)	(17,952)
Income (loss) from continuing operations	6,782	(30,801)	(40,040)	(52,882)	(97,502)
Income from discontinued operations, net of income taxes				5,014	5,312
(Loss) gain on disposal of discontinued operations, net of income taxes		(358)	(325)	9,034	(225)
Net income (loss)	6,782	(31,159)	(40,365)	(38,834)	(92,415)
	(250)	984	2,551	1,596	2,064

Less: Net (loss) income attributable to noncontrolling interests					
Net income (loss) attributable to Ferro Corporation	7,032	(32,143)	(42,916)	(40,430)	(94,479)
Dividends on preferred stock	(330)	(370)	(705)	(877)	(1,035)
Net income (loss) attributable to Ferro Corporation common shareholders	$ 6,702	$ (32,513)	$ (43,621)	$ (41,307)	$ (95,514)
Statement of Cash Flows Data:					
Net cash provided by (used for) operating activities	$ 91,772	$ (40,486)	$ 2,151	$ (9,096)	$ 144,579
Net cash used for investing activities	(10,094)	(22,897)	(42,654)	(17,050)	(62,033)
Net cash (used for) provided by financing activities	(69,843)	69,449	46,625	23,854	(88,717)

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	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
	(In thousands)				
Other Financial Data:					
Capital expenditures	16,298	22,969	43,260	73,068	67,634
Depreciation and amortization	41,251	41,353	88,138	74,595	84,048
EBITDA(4)	97,468	25,837	105,950	73,734	24,367
Adjusted EBITDA(5)	138,143	31,807	138,626	183,857	180,237

	As of June 30,		As of December 31,		
	2010	2009	2009	2008	2007
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 29,732	$ 17,492	$ 18,507	$ 10,191	$ 12,025
Working capital	312,496	327,135	330,923	291,825	196,860
Property, plant and equipment, net	384,940	444,084	432,405	456,549	495,599
Total assets	1,481,427	1,531,517	1,526,355	1,544,117	1,638,260
Total debt, including current portion	352,773	650,747	423,457	570,496	526,089
Total Ferro Corporation shareholders equity	531,840	314,804	550,226	335,969	476,284

(1) We recorded impairment charges of $2.2 million during the six months ended June 30, 2010, as a result of the discontinuance of manufacturing activities at our Limoges, France, plant, which indicated a possible impairment of the plant s real estate assets. We recorded an $8.2 million impairment of goodwill related to our Pharmaceuticals business during 2009. The impairment was triggered by changes made to the assumptions used to determine valuation under the market approach. We recorded impairment charges of $80.2 million related to goodwill and other long-lived assets in our Performance Coatings, Specialty Plastics and Electronic Materials businesses during 2008. Goodwill was impaired related to tile coatings products in the Performance Coatings segment, and goodwill and property, plant and equipment were impaired related to products in our Specialty Plastics segment. The impairments were due to lower forecasted cash flows in the businesses resulting from significant reductions in demand from customers due to the worldwide economic downturn. In addition, we recorded an impairment of property, plant and equipment in our Electronic Materials facility in the Netherlands. This asset impairment was the result of a decline in the operating results and reduced future sales projections for our dielectric material products that are produced at the Netherlands facility. An impairment charge in the amount of $128.7 million related to goodwill and other long-lived assets in our Polymer Additives and Pharmaceuticals businesses was recorded during 2007. The impairment in the Polymer Additives business was triggered by the cumulative negative effect on earnings of a cyclical downturn in certain of the primary U.S.-based end markets for the business, including housing and automobiles; anticipated additional product costs due to recent hazardous material legislation and regulations, such as the newly enacted European Union REACH registration system, which requires chemical suppliers to perform toxicity studies on the components of their products and to register certain information; and higher forecasted capital expenditures related to the business.

The 2007 impairment charge in the Pharmaceuticals business is primarily the result of the longer time necessary to transition the business from a supplier of food supplements and additives to a supplier of high-value pharmaceutical products and services.

(2) Restructuring charges of $32.3 million and $1.1 million were recorded in the six months ended June 30, 2010 and 2009, respectively, primarily related to the rationalization activities in our European manufacturing operations. During 2009 and 2008, we continued several restructuring programs across a number of our business segments with the objectives of leveraging our global scale, realigning and lowering our cost structure and optimizing capacity utilization. The programs are primarily associated with North America and Europe. In November 2007 and March 2008, we initiated additional restructuring plans for our Performance Coatings and Color and Glass Performance Materials segments. In February

2008, we announced the closing of a Plastics facility in Aldridge, United Kingdom. Restructuring charges of $11.1 million were recorded in 2009, primarily related to manufacturing rationalization activities in our European manufacturing operations and other cost-reduction actions. Restructuring charges of $25.9 million were recorded in 2008, primarily associated with the rationalization of our manufacturing operations in the Performance Coatings and Color and Glass Performance Materials segments, and other restructuring activities to reduce costs and expenses throughout all of our businesses. Restructuring charges of $16.9 million were recorded in 2007, primarily associated with our manufacturing rationalization activities in the Performance Coatings and Color and Glass Performance Materials segments in Europe and our Electronic Materials segment in the United States.

(3) For the six months ended June 30, 2010, miscellaneous income and expense includes a gain of $7.8 million as a result of a business combination in which Ferro and Heraeus of Hanau, Germany acquired from each other certain business lines related to decoration materials for ceramic and glass products, and a charge of $3.5 million for an increased reserve for environmental remediation costs related to a non-operating facility in Brazil.

(4) EBITDA is defined as net income (loss) attributable to Ferro Corporation less the gain (loss) on disposal of discontinued operations and income from discontinued operations; plus interest expense, loss on extinguishment of debt, income tax expense (benefit) and depreciation and amortization. EBITDA is not a recognized term under U.S. GAAP and does not purport to be an alternative to net income (loss) as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. We believe that, in addition to net income (loss) attributable to Ferro Corporation and cash flows from operating activities, EBITDA is a useful financial performance measurement for assessing operating performance, since it provides an additional basis to evaluate our ability to incur and service debt and to fund capital expenditures. Additionally, EBITDA is not intended to be a measure of free cash flow for management s discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments, capital expenditures and debt service requirements.

(5) We calculate Adjusted EBITDA from EBITDA by adding back the impairment and restructuring charges provided in the table and footnotes above for the periods presented and other special charges of $6.1 million and $4.9 million for the six months ended June 30, 2010 and 2009, respectively, and $13.3 million, $4.0 million and $10.3 million for the years ended December 31, 2009, 2008 and 2007, respectively. Special charges include, without limitation, severance and other costs related to manufacturing rationalization and other expense reduction activities, environmental reserves, litigation settlement amounts and asset writeoffs, in each case net of applicable gains. We believe that Adjusted EBITDA is a useful measurement for assessing operating performance because it excludes charges that we consider to be outside of our core operating results.

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The following table sets forth a reconciliation from net income (loss) attributable to Ferro Corporation to EBITDA and to Adjusted EBITDA:

	Six Months Ended June 30,		Year Ended December 31,		
	2010	2009	2009	2008	2007
			(In thousands)		
Net income (loss) attributable to Ferro Corporation	$ 7,032	$ (32,143)	$ (42,916)	$ (40,430)	$ (94,479)
Less:					
(Loss) gain on disposal of discontinued operations, net of tax		(358)	(325)	9,034	(225)
Income from discontinued operations, net of tax				5,014	5,312
Plus:					
Interest expense	26,677	28,364	63,918	51,290	57,837
Loss on extinguishment of debt				5,531	
Income tax expense (benefit)	22,508	(12,095)	(3,515)	(3,204)	(17,952)
Depreciation and amortization	41,251	41,353	88,138	74,595	84,048
EBITDA	97,468	25,837	105,950	73,734	24,367
Plus:					
Impairment charges	2,202		8,225	80,205	128,737
Restructuring charges	32,335	1,089	11,112	25,937	16,852
Other special charges	6,138	4,881	13,339	3,981	10,281
Adjusted EBITDA	$ 138,143	$ 31,807	$ 138,626	$ 183,857	$ 180,237

RISK FACTORS

Investing in our notes involves risk. Prior to making a decision about investing in our notes, you should carefully consider the following risk factors, as well as the risk factors discussed under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009, which is incorporated herein by reference. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our operations. If any of these risks actually occurs, our business, results of operations and financial condition could suffer.

Risks Related to Our Business

We sell our products into industries where demand has been unpredictable, cyclical or heavily influenced by consumer spending, and such demand and our results of operations may be further impacted by macro-economic circumstances and uncertainty in credit markets.

We sell our products to a wide variety of customers who supply many different market segments. Many of these market segments, such as building and renovation, major appliances, transportation, and electronics, are cyclical or closely tied to consumer demand, which is difficult to predict. Incorrect forecasts of demand or unforeseen reductions in demand can adversely affect costs and profitability due to factors such as underused manufacturing capacity, excess inventory, or working capital needs.

Our results of operations are materially affected by conditions in capital markets and economies in the U.S. and elsewhere around the world. General economic conditions around the world deteriorated sharply at the end of 2008, and difficult economic conditions continue to exist. Concerns over fluctuating prices, energy costs, geopolitical issues, government deficits and debt loads, the availability and cost of credit, the U.S. mortgage market and a declining real estate market have contributed to increased volatility, diminished expectations, and uncertainty regarding economies around the world. These factors, combined with reduced business and consumer confidence, increased unemployment, and volatile raw materials costs, precipitated an economic slowdown and recession in a number of markets around the world. As a result of these conditions, our customers may experience cash flow problems and may modify, delay, or cancel plans to purchase our products. Additionally, if customers are not successful in generating sufficient revenue or are precluded from securing financing, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us. Any reduction in demand or inability of our current and/or potential customers to pay us for our products may adversely affect our earnings and cash flow.

We strive to improve operating margins through sales growth, price increases, productivity gains, and improved purchasing techniques, but we may not achieve the desired improvements.

We work to improve operating profit margins through activities such as growing sales to achieve increased economies of scale, increasing prices, improving manufacturing processes, and adopting purchasing techniques that lower costs or provide increased cost predictability to realize cost savings. However, these activities depend on a combination of improved product design and engineering, effective manufacturing process control initiatives, cost-effective redistribution of production, and other efforts that may not be as successful as anticipated. The success of sales growth and price increases depends not only on our actions but also the strength of customer demand and competitors pricing responses, which are not fully predictable. Failure to successfully implement actions to improve operating margins could adversely affect our financial performance.

We have initiated and intend to initiate several restructuring programs to improve our operating performance and achieve cost savings, but we may not be able to implement and/or administer these programs in the manner contemplated and these restructuring programs may not produce the desired results.

We have initiated several restructuring programs prior to and in the fourth quarter of 2009, and we intend to initiate new restructuring programs in the future. These programs involve, among other things, plant closures and staff reductions. Although we expect these programs to help us achieve operational improvements, including incremental cost savings, we may not be able to implement and/or administer these programs, including the implementation of plant closures and staff reductions, in the manner contemplated, which could cause the restructuring programs to fail to achieve the desired results. Additionally, the implementation of restructuring programs may result in impairment charges, some of which could be material. Even if we do implement and administer these restructuring programs in the manner contemplated, they may not produce the desired results. Accordingly, the restructuring programs that we have initiated and those that we intend to initiate in the future may not improve our operating performance and may not help us achieve cost savings. Failure to successfully implement and/or administer these restructuring programs could have an adverse effect on our financial performance.

We depend on external financial resources, and the economic environment and credit market uncertainty could interrupt our access to capital markets, borrowings, or financial transactions to hedge certain risks, which could adversely affect our liquidity and our financial condition.

As of June 30, 2010, we had approximately $352.8 million of short-term and long-term debt in the aggregate with varying maturities and approximately $78.0 million of off-balance sheet arrangements, including consignment arrangements for precious metals, international receivables sales programs, bank guarantees, and standby letters of credit. These arrangements have allowed us to make investments in growth opportunities and fund working capital requirements. In addition, we enter into financial transactions to hedge certain risks, including foreign exchange, commodity pricing, and sourcing of certain raw materials. Our continued access to capital markets, the stability of our lenders, customers and financial partners and their willingness to support our needs are essential to our liquidity and our ability to meet our current obligations and to fund operations and our strategic initiatives. An interruption in our access to external financing, including an increase in the cash collateral required by our lenders under our consignment arrangements for precious metals or financial transactions to hedge risk could adversely affect our business prospects and financial condition. See further information regarding our liquidity in Management s Discussion and Analysis of Financial Condition and Results of Operations and in the notes to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which are incorporated herein by reference.

Interest rates on some of our borrowings are variable, and our borrowing costs could be affected adversely by interest rate increases.

Portions of our debt obligations have variable interest rates. Generally, when interest rates rise, our cost of borrowings increases. We estimate, based on the debt obligations outstanding at June 30, 2010, that a one percent increase in interest rates would cause interest expense to increase by approximately $0.4 million annually. Continued interest rate increases could raise the cost of borrowings and adversely affect our financial performance. See further information regarding our interest rates on our debt obligations in Quantitative and Qualitative Disclosures about Market Risk and in the notes to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which are incorporated herein by reference.

We depend on reliable sources of energy and raw materials, including petroleum-based materials and other supplies, at a reasonable cost, but the availability of these materials and supplies could be interrupted and/or their prices could escalate and adversely affect our sales and profitability.

We purchase energy and many raw materials, including petroleum-based materials and other supplies, which we use to manufacture our products. Changes in their availability or price could affect our ability to manufacture enough products to meet customers demands or to manufacture products profitably. We try to maintain multiple sources of raw materials and supplies where practical, but this may not prevent unanticipated changes in their availability or cost.

We may not be able to pass cost increases through to our customers. Significant disruptions in availability or cost increases could adversely affect our manufacturing volume or costs, which could negatively affect product sales or profitability of our operations.

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The markets for our products are highly competitive and subject to intense price competition, and that could adversely affect our sales and earnings performance.

Our customers typically have multiple suppliers from which to choose. If we are unwilling or unable to provide products at competitive prices, and if other factors, such as product performance and value-added services do not provide an offsetting competitive advantage, customers may reduce, discontinue, or decide not to purchase our products. If we could not secure alternate customers for lost business, our sales and earnings performance could be adversely affected.

The global scope of our operations exposes us to risks related to currency conversion rates and changing economic, social and political conditions around the world.

More than 50% of our net sales during 2009 were outside of the U.S. In order to support global customers, access regional markets and compete effectively, our operations are located around the world. As a result, our operations have additional complexity from changing economic, social and political conditions in multiple locations and we are subject to risks relating to currency conversion rates. Other risks inherent in international operations include the following:

- New and different legal and regulatory requirements and enforcement mechanisms in local jurisdictions;
- U.S. export licenses may be difficult to obtain and we may be subject to export duties or import quotas or other trade barriers;
- Increased costs of, and decreased availability of, transportation or shipping;
- Credit risk and financial conditions of local customers and distributors;
- Risk of nationalization of private enterprises by foreign governments or restrictions on investments;
- Potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries; and
- Local political, economic and social conditions, including the possibility of hyperinflationary conditions, deflation, and political instability in certain countries.

While we attempt to anticipate these changes and manage our business appropriately in each location where we do business, these changes are often beyond our control and difficult to forecast. The consequences of these risks may have significant adverse effects on our results of operations or financial position.

We have significant deferred tax assets, and if we are unable to utilize these assets our results of operations may be adversely affected.

To fully realize the carrying value of our net deferred tax assets, we will have to generate adequate taxable profits in various tax jurisdictions. As of December 31, 2009, we had $146.7 million of net deferred tax assets, after valuation allowances. If we do not generate adequate profits within the time periods required by applicable tax statutes, the carrying value of the tax assets will not be realized. If it becomes unlikely that the carrying value of our net deferred tax assets will be realized, the valuation allowances may need to be increased in our consolidated financial statements, adversely affecting results of operations. Further information on our deferred tax assets is presented in the notes to the audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which is incorporated herein by reference.

Many of our assets are encumbered by liens that have been granted to lenders, and those liens affect our flexibility to dispose of property and businesses.

Our debt obligations under our credit facility are secured by substantially all of our assets. These liens could reduce our ability and/or extend the time to dispose of property and businesses, as these liens must be cleared or waived by the lenders prior to any disposition. These security interests are described in more detail

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in the notes to the audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which are incorporated herein by reference.

We are subject to a number of restrictive covenants under our credit facilities, which could affect our flexibility to fund ongoing operations and strategic initiatives, and, if we are unable to maintain compliance with such covenants, could lead to significant challenges in meeting our liquidity requirements.

Our credit facilities contain, and we expect that any new credit facilities that we may enter into will contain, a number of restrictive covenants, including those described in more detail in the notes to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. These covenants include customary operating restrictions that limit our ability to engage in certain activities, including additional loans and investments; prepayments, redemptions and repurchases of debt; and mergers, acquisitions and asset sales. We are also subject to customary financial covenants, including a leverage ratio and a fixed charge coverage ratio. These covenants restrict the amount of our borrowings, reducing our flexibility to fund ongoing operations and strategic initiatives. These facilities are described in more detail in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which are incorporated herein by reference.

Breaches of these covenants could become defaults under our credit facilities and cause the acceleration of debt payments beyond our ability to pay. Compliance with some of these covenants is based on financial measures derived from our operating results. If economic conditions in key markets deteriorate, we may experience material adverse impacts to our business and operating results, such as through reduced customer demand and inflation. A significant decline in our business could make us unable to maintain compliance with these financial covenants, in which case, our lenders could demand immediate payment of outstanding amounts and we would need to seek alternate financing sources to pay off such debts and to fund our ongoing operations. Such financing may not be available on favorable terms, if at all.

Regulatory authorities in the U.S., European Union and elsewhere are taking a much more aggressive approach to regulating hazardous materials and other substances, and those regulations could affect sales of our products.

Legislation and regulations concerning hazardous materials and other substances can restrict the sale of products and/or increase the cost of producing them. Some of our products are subject to restrictions under laws or regulations such as California Proposition 65 or the European Union s hazardous substances directive. The EU REACH registration system became effective June 1, 2007, and requires us to perform toxicity studies of the components of some of our products and to register the information in a central database, increasing the cost of these products. As a result of such regulations, customers may avoid purchasing some products in favor of perceived greener, less hazardous or less costly alternatives. It may be impractical for us to continue manufacturing heavily regulated products, and we may incur costs to shut down or transition such operations to alternative products. These circumstances could adversely affect our business, including our sales and operating profits.

Our operations are subject to operating hazards and, as a result, to stringent environmental, health and safety regulations, and compliance with those regulations could require us to make significant investments.

Our production facilities are subject to hazards associated with the manufacture, handling, storage and transportation of chemical materials and products. These hazards can cause personal injury and loss of life, severe damage to, or destruction of, property and equipment and environmental contamination and other environmental damage and could have an adverse effect on our business, financial condition or results of operations.

We strive to conduct our manufacturing operations in a manner that is safe and in compliance with all applicable environmental, health and safety regulations. Compliance with changing regulations may require us to make significant capital investments, incur training costs, make changes in manufacturing processes or product formulations, or incur costs that could adversely affect our profitability, and violations of these laws could lead to substantial fines and penalties. These costs may not affect competitors in the same way due to differences in product formulations, manufacturing locations or other factors, and we could be at a competitive disadvantage, which might adversely affect financial performance.

Our businesses depend on a continuous stream of new products, and failure to introduce new products could affect our sales, profitability and liquidity.

One way that we remain competitive in our markets is by developing and introducing new and improved products on an ongoing basis. Customers continually evaluate our products in comparison to those offered by our competitors. A failure to introduce new products at the right time that are price competitive and that provide the features and performance required by customers could adversely affect our sales, or could require us to compensate by lowering prices. The result could be lower sales, profitability and/or liquidity.

We are subject to stringent labor and employment laws in certain jurisdictions in which we operate, we are party to various collective bargaining arrangements, and our relationship with our employees could deteriorate, which could adversely impact our operations.

A majority of our full-time employees are employed outside the U.S. In certain jurisdictions where we operate, labor and employment laws are relatively stringent and, in many cases, grant significant job protection to certain employees, including rights on termination of employment. In addition, in certain countries where we operate, our employees are members of unions or are represented by a works council. We are often required to consult and seek the consent or advice of these unions and/or works councils. These regulations and laws, coupled with the requirement to consult with the relevant unions or works councils, could have a significant impact on our flexibility in managing costs and responding to market changes.

Furthermore, with respect to our employees who are subject to collective bargaining arrangements or similar arrangements (approximately 18% of our U.S. workforce as of December 31, 2009), there can be no assurance that we will be able to negotiate labor agreements on satisfactory terms or that actions by our employees will not disrupt our business. If these workers were to engage in a strike, work stoppage or other slowdown or if other employees were to become unionized, we could experience a significant disruption of our operations and/or higher ongoing labor costs, which could adversely affect our business, financial condition and results of operations.

Employee benefit costs, especially postretirement costs, constitute a significant element of our annual expenses, and funding these costs could adversely affect our financial condition.

Employee benefit costs are a significant element of our cost structure. Certain expenses, particularly postretirement costs under defined benefit pension plans and healthcare costs for employees and retirees, may increase significantly at a rate that is difficult to forecast and may adversely affect our financial results, financial condition or cash flows. As of December 31, 2009, our U.S. pension plans were underfunded by approximately $112.4 million and our non-U.S. pension plans were underfunded by approximately $47.2 million. Declines in global capital markets may cause reductions in the value of our pension plan assets. Such circumstances could have an adverse effect on future pension expense and funding requirements. Further information regarding our retirement benefits is presented in the notes to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which are incorporated herein by reference.

We are exposed to intangible asset risk, and a write down of our intangible assets could have an adverse impact to our operating results and financial position.

We have recorded intangible assets, including goodwill, in connection with business acquisitions. We are required to perform goodwill impairment tests at least on an annual basis and whenever events or circumstances indicate that the carrying value may not be recoverable from estimated future cash flows. As a result of our annual and other periodic evaluations, we may determine that the intangible asset values need to be written down to their fair values, which could result in material charges that could be adverse to our operating results and financial position.

Our ability to use our operating loss carryforwards and other tax attributes may be subject to limitation due to significant changes in the ownership of our common stock.

As of December 31, 2009, we had gross operating loss carryforwards of approximately $5.0 million and gross other tax attributes of approximately $67.1 million for U.S. federal income tax purposes. Under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an ownership change, the corporation s ability to use its pre-change operating loss carryforwards and other tax attributes to offset its post-change income may be limited and may result in a partial or full write down of the related deferred tax assets. An ownership change is defined generally for these purposes as a greater than 50% change in ownership over a three-year period, taking into account shareholders that own 5% or more by value of our common stock. At December 31, 2009, we had reached a 43% threshold as calculated under Section 382 of the Code.

We have a growing presence in the Asia-Pacific region where it can be difficult for a U.S.-based company, such as Ferro, to compete lawfully with local competitors, which may cause us to lose business opportunities.

Many of our most promising growth opportunities are in the Asia-Pacific region, especially the People s Republic of China. Although we have been able to compete successfully in those markets to date, local laws and customs can make it difficult for a U.S.-based company to compete on a level playing field with local competitors without engaging in conduct that would be illegal under U.S. law. Our strict policy of observing the highest standards of legal and ethical conduct may cause us to lose some otherwise attractive business opportunities to local competition in the region.

We have in the past identified material weaknesses in our internal controls, and the identification of any material weaknesses in the future could affect our ability to ensure timely and reliable financial reports.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, which is a process designed by our management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We conducted an assessment of our internal controls over financial reporting as of December 31, 2009 and 2008 and concluded that the internal controls over financial reporting were effective as of December 31, 2009 and 2008. Previously, we had concluded that we had material weaknesses in our internal controls as of December 31, 2007, 2006, 2005 and 2004. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that, there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis.

Accordingly, while we have taken actions to address the past material weaknesses and continued activities that materially improved, or are reasonably likely to materially improve, our internal control over financial reporting, these measures may not be sufficient to ensure that our internal controls are effective in the future. If we are unable to correct future weaknesses in internal controls in a timely manner, our ability to record, process, summarize and report reliable financial information within the time periods specified in the rules and forms of the SEC will be adversely affected. This failure could materially and adversely impact our business, our financial condition and the market value of our securities.

We are a defendant in several lawsuits that could have an adverse effect on our financial condition and/or financial performance, unless they are successfully resolved.

We are routinely involved in litigation brought by suppliers, customers, employees, governmental agencies, and others. Litigation is an inherently unpredictable process and unanticipated negative outcomes are possible. The most significant pending litigation is described in Item 3 Legal Proceedings of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which are incorporated herein by reference.

We are exposed to risks associated with acts of God, terrorists and others, as well as fires, explosions, wars, riots, accidents, embargoes, natural disasters, strikes and other work stoppages, quarantines and other governmental actions, and other events or circumstances that are beyond our control.

Ferro Corporation is exposed to risks from various events that are beyond our control, which may have significant effects on our results of operations. While we attempt to mitigate these risks through appropriate insurance, contingency planning and other means, we may not be able to anticipate all risks or to reasonably or cost-effectively manage those risks that we do anticipate. As a result, our results of operations could be adversely affected by circumstances or events in ways that are significant and/or long lasting.

The risks and uncertainties identified above are not the only risks that we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial also may adversely affect us. If any known or unknown risks and uncertainties develop into actual events, these developments could have material adverse effects on our financial position, results of operations, and cash flows.

Risks Related to this Offering

Our substantial leverage and significant debt service obligations could adversely affect our ability to operate our business and to fulfill our obligations, including under the notes.

We have a significant amount of indebtedness. As of June 30, 2010, assuming completion of the sale of the notes, the repayment of all of the remaining term loans and revolving borrowings outstanding under our existing credit facility, our entry into, and borrowing under, the new credit facility and the repurchase of all of our outstanding convertible notes pursuant to the tender offer, our debt would have been $390.2 million, excluding unused commitments under our new credit facility. We also have off-balance sheet indebtedness associated with our international receivables sales programs of approximately $2.6 million as of June 30, 2010.

This high level of indebtedness could have important negative consequences to us and you, including:

- we may have difficulty satisfying our obligations with respect to the notes;
- we may have difficulty obtaining financing in the future for working capital, capital expenditures, acquisitions or other purposes;
- we will need to use a substantial portion of our available cash flow to pay interest and principal on our debt, which will reduce the amount of money available to finance our operations and other business activities;
- some of our debt, including our borrowings under our new credit facility, will have variable rates of interest, which will expose us to the risk of increased interest rates;

our debt level increases our vulnerability to general economic downturns and adverse industry conditions;

our debt level could limit our flexibility in planning for, or reacting to, changes in our business and in our industry in general;

we may not have sufficient funds available, and our debt level may also restrict us from raising the funds necessary, to repurchase all of the notes tendered to us upon the occurrence of a change of control, which would constitute an event of default under the notes; and our failure to comply with the financial and other restrictive covenants in our debt instruments which, among other things, require us to maintain specified financial ratios and limit our ability to incur debt and sell assets, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business or prospects.

Despite current indebtedness levels, we may still be able to incur substantially more debt. This could increase the risks associated with our substantial leverage.

We may be able to incur substantial additional indebtedness in the future. Although the indenture governing the notes and the credit agreement governing our existing credit facility contain, and the agreement governing our new credit facility, if entered into, will contain, restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Furthermore, the indenture for the notes and the indenture governing our convertible notes allow us to incur additional debt. Any additional borrowings could be senior to the notes. If we incur additional debt above the levels in effect upon the closing of the offering, the risks associated with our substantial leverage would increase. See Capitalization and Description of the Notes.

The notes are unsecured and effectively junior to the claims of any secured creditors.

The notes are unsecured obligations and will rank equally in right of payment with all of our other existing and future unsecured, unsubordinated obligations, including our convertible notes. The notes are not secured by any of our assets and are effectively junior to the claims of any secured creditors and to the existing and future liabilities of our subsidiaries. As of June 30, 2010, the amount of our secured debt was $186.8 million, which includes capital lease obligations of $5.4 million. Our obligations under our existing credit facility are and our obligations under our new credit facility, if entered into, will be secured by a pledge by us of 100% of our North American assets, a pledge of 100% of the capital stock of certain of our direct and indirect domestic subsidiaries and a pledge of 65% of the capital stock of our foreign subsidiaries. In addition, we may incur other senior indebtedness, which may be substantial in amount, and which may, in certain circumstances, be secured. Any future claims of secured lenders, including the lenders under our credit facility with respect to assets securing their loans will be prior to any claim of the holders of the notes with respect to those assets. As a result, our assets may be insufficient to pay amounts due on your notes.

The notes are not guaranteed and will therefore be structurally junior to the existing and future liabilities of our subsidiaries, and we may not have access to the cash flow and other assets of our subsidiaries that we may need to make payment on the notes.

Our subsidiaries are separate and distinct legal entities from us. Our subsidiaries have no obligation to pay any amounts due on the notes or to provide us with funds to meet our payment obligations on the notes, whether in the form of dividends, distributions, loans or other payments. In addition, any payment of dividends, loans or advances by our subsidiaries could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon the subsidiaries earnings and business considerations. Our right to receive any assets of any of our subsidiaries upon their bankruptcy, liquidation or reorganization, and therefore the right of the holders of the notes to participate in those assets, will be effectively subordinated to the claims of that subsidiary s creditors, including trade creditors. In addition, even if we are a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of those subsidiaries and any indebtedness of those subsidiaries senior to that held by us. In addition, because the notes will not be guaranteed by any of our subsidiaries, the notes will also be structurally subordinated to all the liabilities of the our subsidiaries, including trade payables. As of June 30, 2010, Ferro Corporation s subsidiaries had approximately $12.4 million of debt and $146.0 million of trade payables outstanding. Certain of our domestic subsidiaries also guarantee our debt under our existing credit facility, and will guarantee our debt under our new credit facility, if entered into, and are permitted under the indenture to incur substantial additional indebtedness. Finally, the indenture also permits us to make substantial additional investments in and loans to our subsidiaries. After giving pro forma effect to the merger of Ferro Color & Glass Corporation with and into Ferro Corporation, our subsidiaries generated 53.5% of our consolidated net sales in the twelve-month period ended June 30, 2010, and held 51.3% of our consolidated assets as of June 30, 2010.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture.

Upon a change of control, we are required to offer to repurchase all outstanding notes at 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. The source of funds for any such purchase of notes will be our available cash or cash generated from our subsidiaries operations or other sources, including borrowings, sales of assets, sales of equity or funds provided by a new controlling person. Sufficient funds may not be available at the time of any change of control to make any required repurchases of notes tendered. In addition, the terms of our existing credit facility limit our ability to purchase your notes in those circumstances. Under our existing credit facility, a change of control is an event of default that would require us to repay all amounts outstanding under the existing credit facility. Any of our future debt agreements, including the agreement governing our new credit facility, may contain similar restrictions and provisions. If the holders of the notes exercise their right to require us to repurchase all of the notes upon a change of control, the financial effect of this repurchase could cause a default under our other debt, even if the change in control itself would not cause a default. Accordingly, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of notes or that restrictions in our existing credit facility or other debt that may be incurred in the future will not allow the repurchases. See the section Description of Notes Repurchase at the Option of Holders Change of Control.

An active trading market for the notes may not develop.

The notes are a new issue of securities with no established trading market and will not be listed on any securities exchange. If an active trading market does not develop or is not maintained, holders of the notes may experience difficulty in reselling, or an inability to sell, the notes. Future trading prices for the notes may be adversely affected by many factors, including changes in our financial performance, changes in the overall market for similar securities and performance or prospects for companies in our industry.

Our credit ratings may not reflect all the risks of your investments in the notes.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency s rating should be evaluated independently of any other agency s rating.

Under U.S. federal and state fraudulent transfer or conveyance statutes, a court could void the notes or take other actions detrimental to holders of the notes.

The issuance of the notes may be subject to review under U.S. federal bankruptcy law and comparable provisions of state fraudulent conveyance laws if a bankruptcy or reorganization case or lawsuit is commenced by or on behalf of the issuer s unpaid creditors. Under these laws, if a court were to find in such a bankruptcy or reorganization case or lawsuit that, at the time the issuer issued the notes:

it issued the notes with the intent to delay, hinder or defraud present or future creditors; or it received less than reasonably equivalent value or fair consideration for issuing the notes; and at the time it issued the notes: it was insolvent or rendered insolvent by reason of issuing the notes; it was engaged, or about to engage, in a business or transaction for which its remaining unencumbered assets constituted unreasonably small capital to carry on its business; it intended to incur, believed that it would incur or did incur, debts beyond its ability to pay as they mature; or it was a defendant in an action for

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money damages, or had a judgment for money damages docketed against it if, in either case, after final judgment, the judgment is unsatisfied;

then the court could void the notes, subordinate the notes to issuer s other debt or take other action detrimental to holders of the notes.

The measures of insolvency for purposes of fraudulent transfer laws vary depending upon the law of the jurisdiction that is being applied in any proceeding to determine whether a fraudulent transfer had occurred. We cannot be sure as to the standard that a court would use to determine whether or not the issuer was solvent as of the date the issuer issued the notes, or, regardless of the standard that the court uses, that the issuance of the notes would not be voided or the notes would not be subordinated to the issuer s other debt. Additionally, under U.S. federal bankruptcy or applicable state insolvency law, if certain bankruptcy or insolvency proceedings were initiated by or against the issuer within 90 days after any payment by the issuer with respect to the notes, or if the issuer anticipated becoming insolvent at the time of the payment, all or a portion of the payment could be avoided as a preferential transfer and the recipient of the payment could be required to return the payment.

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USE OF PROCEEDS

The net proceeds from the sale of the notes, after deducting underwriting discounts and commissions and estimated offering expenses, will be approximately $244.0 million. We intend to use a portion of the net proceeds from this offering to repay all of the remaining term loans and revolving borrowings outstanding under our existing credit facility. If the tender offer for our convertible notes is consummated, the remaining net proceeds from this offering will be used, along with borrowings under the new credit facility, to repurchase all the convertible notes that are tendered and not validly withdrawn pursuant to the tender offer, including the payment of all accrued and unpaid interest on the convertible notes and all premiums and transaction expenses associated therewith. If this offering is consummated prior to the purchase of our convertible notes pursuant to the tender offer, upon repayment of the remaining term loans and revolving borrowings outstanding under our existing credit facility, such remaining net proceeds from this offering will be temporarily held as cash and cash equivalents. If the tender offer is not consummated, the remaining net proceeds from this offering will be used for general corporate purposes. See Capitalization.

As of June 30, 2010, there was $172.5 million aggregate principal amount of convertible notes outstanding. The convertible notes bear interest at a rate of 6.50% per annum and mature on August 15, 2013. As of June 30, 2010, there was $181.4 million in term loans and no revolving borrowings outstanding under our existing credit facility, which matures on June 6, 2012. As of June 30, 2010, the interest rate on the term loans was 6.52% per annum and the interest rate on the revolving borrowings would have been the applicable LIBOR plus 4.5% per annum had any amounts been outstanding under the revolving portion of the existing credit facility.

Certain of the underwriters and/or their affiliates are lenders under our existing credit facility and holders of our convertible notes and may be lenders under any new credit facility that we may enter into and therefore may receive a portion of the net proceeds from this offering in connection with the Refinancing Transactions. This offering is being made in accordance with NASD Rule 2720(a)(2) and FINRA Rule 5110, whereby J.P. Morgan Securities Inc. has assumed the responsibilities of acting as a qualified independent underwriter. See Underwriting (Conflicts of Interest).

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CAPITALIZATION

The following table sets forth our unaudited cash and cash equivalents and deposits for precious metals and consolidated capitalization as of June 30, 2010:

on an historical basis; and

on an as adjusted basis to give effect to (i) the offering of the notes, (ii) the repayment of all of the term loans and revolving borrowings outstanding under our existing credit facility, (iii) our entry into and borrowing under the new credit facility and (iv) the purchase of all of our outstanding convertible notes pursuant to the tender offer with the remaining net proceeds from this offering and borrowings under our new credit facility.

You should read this table in conjunction with our consolidated financial statements, the related notes and other financial information contained in our Annual Report on Form 10-K for the year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, which are incorporated by reference into this prospectus supplement and the accompanying prospectus.

	As of June 30, 2010	
	Actual	As Adjusted(1)
	(Dollars in thousands)	
Cash and cash equivalents and deposits for precious metals:		
Cash and cash equivalents(2)	$ 29,732	$ 29,732
Deposits for precious metals	55,808	55,808
Total cash and cash equivalents and deposits for precious metals	85,540	85,540
Capitalization:		
Short-term debt, including current portion of long-term debt(3)	5,066	5,066
Long-term debt:		
Revolving borrowings		127,530
Term loans	181,385	
Convertible notes(4)	158,745	
Senior notes offered hereby		250,000
Other	7,577	7,577
Total long-term debt	347,707	385,107
Series A convertible preferred stock	9,427	9,427
Total Ferro Corporation shareholders equity(5)	531,840	510,426
Total Capitalization	$ 894,040	$ 910,026

(1)

Assumes that all of our outstanding convertible notes are repurchased pursuant to the tender offer. If not all of our outstanding convertible notes are repurchased or the tender offer is not consummated for any reason, we will be required to borrow less under the new credit facility and a greater portion of the net proceeds from this offering will be used for general corporate purposes. Accordingly, in either case, the amount of revolving borrowings outstanding would decrease, with a corresponding increase in the principal amount of convertible notes outstanding.

(2) If this offering is consummated prior to the purchase of our convertible notes pursuant to the tender offer, upon repayment of the remaining term loans and revolving borrowings outstanding under our existing credit facility, such remaining net proceeds from this offering will be temporarily held as cash and cash equivalents.

(3) Excludes off-balance sheet indebtedness associated with our international receivables sales programs of approximately $2.6 million.

(4) Amount shown is net of unamortized discounts. The aggregate principal amount of convertible notes outstanding as of June 30, 2010 was $172.5 million.

(5) Reflects after-tax loss on extinguishment of debt of $13.0 million (which includes tender offer premiums and expenses and writeoff of deferred issuance fees) and the after-tax loss on the settlement of interest rate swaps of $5.1 million. Also reflects $3.3 million reduction of equity for the removal of the convertible notes bifurcation.

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DESCRIPTION OF THE NOTES

You can find the definitions of certain terms used in this description under the subheading Certain Definitions. In this description, the word Company refers only to Ferro Corporation and not to any of its Subsidiaries.

The Company will issue the notes under a base indenture between itself and Wilmington Trust FSB, as trustee, as supplemented by a supplemental indenture (the *supplemental indenture*) among the Company and the trustee, which supplemental indenture will restate in their entirety the terms of the base indenture as supplemented by the supplemental indenture. In this description, the term indenture refers to the base indenture as supplemented by the supplemental indenture. The terms of the notes will include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the indenture. It does not restate that agreement in its entirety. We urge you to read the indenture because it, and not this description, defines your rights as holders of the notes. We have filed copies of the base indenture, which has been incorporated by reference as an exhibit to the registration statement of which this prospectus supplement is part. For more information on how you can obtain a copy of the base indenture and the supplemental indenture, see Information We Incorporate By Reference. Certain defined terms used in this description but not defined below under Certain Definitions have the meanings assigned to them in the indenture.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

Brief Description of the Notes

The Notes

The notes:

- will be general unsecured, senior obligations of the Company;
- will be *pari passu* in right of payment with all existing and future senior Indebtedness of the Company, including borrowings under the credit facility;
- will be senior in right of payment to any future subordinated Indebtedness of the Company;
- will not initially be guaranteed by any of the Company s Subsidiaries.

The notes will be effectively subordinated to all borrowings under the credit facility, which are secured by substantially all of the assets of the Company. See Risk Factors The notes are unsecured and effectively junior to the claims of any secured creditors. As of June 30, 2010, we had outstanding approximately $179.8 million principal amount (or face value) of unsecured indebtedness with which the notes would rank equally. As of June 30, 2010, assuming the successful completion of the tender offer and the entry into a new credit facility and giving effect to the offering of the notes and application of the estimated net proceeds from the sale of the notes in this offering as described under Use of Proceeds, the notes would have been effectively subordinated to approximately $135.5 million of secured indebtedness, which includes capital lease obligations of $5.4 million.

Because the notes will not initially be guaranteed by any of the Company s Subsidiaries, the notes will also be structurally subordinated to all the liabilities of the Company s Subsidiaries, including trade payables. As of June 30, 2010, the Company s Subsidiaries had approximately $12.4 million of debt and $146.0 million of trade payables. As of June 30, 2010, the Company s domestic Subsidiaries provided guarantees with respect to approximately $181.4 million of debt under our existing credit facility, all of which consisted of term loans that will be repaid in connection with the completion of this offering. Additionally, the indenture permits the Company s Subsidiaries to incur substantial additional indebtedness. The indenture also permits the Company to make substantial investments in its Subsidiaries. See Risk Factors The notes are not guaranteed and will therefore be structurally junior to the existing and future liabilities of our subsidiaries, and we may not have access to the cash flow and other assets of our subsidiaries that we may need to make payment on the notes.

In the event of a bankruptcy, liquidation or reorganization of any of the Company s Subsidiaries, the Company s Subsidiaries will pay the holders of their debt and their trade creditors before these Subsidiaries will be able to distribute any of their assets to the Company. After giving pro forma effect to the merger of Ferro Color & Glass Corporation with and into the Company, the Company s Subsidiaries generated 53.5% of its consolidated net sales in the twelve-month period ended June 30, 2010 and held 51.3% of its consolidated assets as of June 30, 2010. See Risk Factors The notes are not guaranteed and will therefore be structurally junior to the existing and future liabilities of our subsidiaries, and we may not have access to the cash flow and other assets of our subsidiaries that we may need to make payment on the notes.

Principal, Maturity and Interest

The Company will issue $250.0 million in aggregate principal amount of notes in this offering. The Company may issue additional notes from time to time after this offering and such additional notes may be issued either under the supplemental indenture or one or more additional supplemental indentures. Any issuance of additional notes is subject to all of the covenants in the indenture, including the covenant described below under the caption Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock. The notes and any additional notes subsequently issued under the same supplemental indenture will be treated as a single series for all purposes under the supplemental indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. The Company will issue notes in denominations of $2,000 and integral multiples of $1,000 in excess of $2,000. Unless the context requires otherwise, for all purposes of the indenture and this Description of the Notes, all references to the notes include any additional notes actually issued. The notes will mature on August 15, 2018.

Interest on the notes will accrue at the rate of 7.875% per annum and will be payable semi-annually in arrears on February 15 and August 15, commencing on February 15, 2011. The Company will make each interest payment to the holders of record on the immediately preceding February 1 and August 1.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Methods of Receiving Payments on the Notes

If a holder of notes has given wire transfer instructions to the Company, the Company will pay, or cause to be paid by the paying agent, all principal, interest and premium, if any, on that holder s notes in accordance with those instructions. All other payments on the notes will be made at the office or agency of the paying agent and registrar unless the Company elects to make interest payments by check mailed to the noteholders at their address set forth in the register of holders.

Paying Agent and Registrar for the Notes

The trustee will initially act as paying agent and registrar. The Company may change the paying agent or registrar without prior notice to the holders of the notes, and the Company or any of its Subsidiaries may act as paying agent or registrar.

Transfer and Exchange

A holder may transfer or exchange notes in accordance with the provisions of the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. The Company will not be required to transfer or exchange any note selected for redemption. Also, the Company will not be required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

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Optional Redemption

At any time prior to August 15, 2013, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes issued under the indenture, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 107.875% of the principal amount of the notes redeemed, plus accrued and unpaid interest, if any, to the date of redemption (subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date), with the net cash proceeds from an Equity Offering by the Company; *provided* that:

(1) at least 65% of the aggregate principal amount of notes issued under the indenture (excluding notes held by the Company and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

At any time prior to August 15, 2014, the Company may on any one or more occasions redeem all or a part of the notes, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount of the notes redeemed, plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the date of redemption, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding paragraphs, the notes will not be redeemable at the Company s option prior to August 15, 2014.

On or after August 15, 2014, the Company may on any one or more occasions redeem all or a part of the notes, upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on August 15 of the years indicated below, subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2014	103.938%
2015	101.969%
2016 and thereafter	100.000%

Unless the Company defaults in the payment of the redemption price, interest will cease to accrue on the notes or portions thereof called for redemption on the applicable redemption date.

Mandatory Redemption

The Company is not required to make mandatory redemption or sinking fund payments with respect to the notes.

Governing Law

The indenture and the notes will be governed by the internal laws of the State of New York.

Repurchase at the Option of Holders

Change of Control

If a Change of Control occurs, each holder of notes will have the right to require the Company to repurchase all or any part (equal to $2,000 or an integral multiple of $1,000 in excess thereof) of that holder s notes pursuant to the offer described below (the *Change of Control Offer*) on the terms set forth in the indenture. In the Change of Control Offer, the Company will offer a payment (a *Change of Control Payment*) in cash equal to 101% of the aggregate principal amount of notes repurchased, plus accrued and unpaid interest, if any, on the notes repurchased to the date of purchase (the *Change of Control Payment Date*), subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Company will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 45 days and no later than 90 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice.

On the Change of Control Payment Date, the Company will, to the extent lawful:

(1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

(3) deliver or cause to be delivered to the trustee the notes properly accepted together with an officers certificate stating the aggregate principal amount of notes or portions of notes being purchased by the Company.

The paying agent will promptly mail or deliver to each holder of notes properly tendered the Change of Control Payment for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; provided that each new note will be in a principal amount of $2,000 or integral multiples of $1,000 in excess of $2,000. The Company will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Company to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the indenture are applicable. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the holders of the notes to require that the Company repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

The Company will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by the Company and purchases all notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the indenture as described above under the caption Optional Redemption, unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditional upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of the Company and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require the Company to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Company and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Asset Sales

The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) the Company (or the applicable Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value (measured as of the date of the definitive agreement with respect to such Asset Sale) of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) except in the case of a Permitted Asset Swap, at least 75% of the consideration received in the Asset Sale by the Company or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash for purposes of this clause (2):

(a) any liabilities, as shown on the Company s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than liabilities that are by their terms subordinated to the notes) (i) that are assumed by the transferee of any such assets and from which the Company and its Restricted Subsidiaries are unconditionally released or indemnified against by such transferee or (ii) in respect of which neither the Company nor any Restricted Subsidiary following such Asset Sale has any obligation;

(b) any securities, notes or other obligations received by the Company or any such Restricted Subsidiary from such transferee that are, subject to ordinary settlement periods, converted by the Company or such Restricted Subsidiary into cash within 180 days of receipt thereof, to the extent of the cash received in that conversion; and

(c) any stock or assets of the kind referred to in clauses (2) or (4) of the next paragraph of this covenant; and

(d) any Designated Non-Cash Consideration received by the Company or its Restricted Subsidiaries in such Asset Sale having an aggregate Fair Market Value, taken together with all other Designated Non-Cash Consideration received pursuant to this clause (d) that is at that time outstanding in the aggregate, not to exceed the greater of (i) $35.0 million and (ii) 2.50% of the Company s Consolidated Total Assets, in each case, at the time of the receipt of such Designated Non-Cash Consideration, with the Fair Market Value of each item of Designated Non- Cash Consideration measured at the time received and without giving effect to subsequent changes in value, shall be deemed to be cash for purposes of this provision and for no other purpose.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Proceeds:

(1) to repay Indebtedness and other Obligations under a Credit Facility that are secured by a Lien and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;

(2) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary of the Company;

(3) to make a capital expenditure;

(4) to acquire other assets that are not classified as current assets under GAAP and that are used or useful in a Permitted Business;

(5) to repurchase all or a portion of the Convertible Notes;

(6) to consummate a restructuring of other assets or properties of the Company or any of its Subsidiaries, so long as, with respect to any Asset Sale, the aggregate Net Proceeds applied pursuant to this clause (6) do not exceed 10.0% of the Net Proceeds with respect to such Asset Sale.

In the case of clauses (2), (3), (4), (5) and (6) above, a binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment; *provided* that in the event such binding commitment is later canceled or terminated for any reason before such Net Proceeds are so applied, the Company or such Restricted Subsidiary may satisfy its obligation as to any Net Proceeds by entering into another binding commitment within

180 days of such cancellation or termination of the prior binding commitment; *provided*, *further*, that the Company or such Restricted Subsidiary may only enter into such a commitment under the foregoing provision one time with respect to each Asset Sale. Pending the final application of any Net Proceeds, the Company (or the applicable Restricted Subsidiary) may temporarily

reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute *Excess Proceeds*. When the aggregate amount of Excess Proceeds exceeds $30.0 million, within 10 business days thereof, the Company will make an offer (an *Asset Sale Offer*) to all holders of notes and, in the Company s discretion, to all holders of other Indebtedness that is *pari passu* with the notes containing provisions similar to those set forth in the indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of notes and such other *pari passu* Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith) that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the date of closing of such purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the notes and the trustee or agent for such other pari passu Indebtedness shall select such other *pari passu* Indebtedness to be purchased on a pro rata basis with such adjustments so that no notes in an unauthorized denomination is redeemed in part. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to a Change of Control Offer or an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control or Asset Sale provisions of the indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control or Asset Sale provisions of the indenture by virtue of such compliance.

The agreements governing the Company s other Indebtedness contain, and future agreements may contain, prohibitions of certain events, including events that would constitute a Change of Control or an Asset Sale. The exercise by the holders of notes of their right to require the Company to repurchase the notes upon a Change of Control or an Asset Sale could cause a default under these other agreements, even if the Change of Control or Asset Sale itself does not, due to the financial effect of such repurchases on the Company. In the event a Change of Control or Asset Sale occurs at a time when the Company is prohibited from purchasing notes, the Company could seek the consent of its senior lenders to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If the Company does not obtain a consent or repay those borrowings, the Company will remain prohibited from purchasing notes. In that case, the Company s failure to purchase tendered notes would constitute an Event of Default under the indenture which could, in turn, constitute a default under the other Indebtedness. Finally, the Company s ability to pay cash to the holders of notes upon a repurchase may be limited by the Company s then existing financial resources. See Risk Factors We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture.

Selection and Notice

If less than all of the notes are to be redeemed at any time, the trustee will select notes for redemption on a *pro rata* basis with such adjustments so that no notes in an unauthorized denomination are redeemed in part (or, in the case of notes issued in global form as discussed under Book-Entry, Delivery and Form, based on a method that most nearly approximates a pro rata selection as the trustee deems fair and appropriate) unless otherwise required by law or applicable stock exchange or depositary requirements.

No notes of $2,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Other than a Change of Control Offer made in advance of a Change of Control, notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of notes called for redemption.

Certain Covenants

Set forth below are summaries of certain covenants contained in the indenture. Following the first day that:

(1) the notes have an Investment Grade Rating from both of the Rating Agencies; and

(2) no Default has occurred and is continuing under the indenture,

then, the Company and its Restricted Subsidiaries will not be subject to the provisions of the indenture summarized under the subcaptions:

(1) Repurchase at the Option of Holders Asset Sales;

(2) Restricted Payments;

(3) Incurrence of Indebtedness and Issuance of Preferred Stock;

(4) Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries;

(5) Merger, Consolidation or Sale of Assets (but only clause (4) of such covenant);

(6) Transactions with Affiliates; and

(7) Future Subsidiary Guarantors;

(collectively, the *Suspended Covenants*). In the event that the Company and its Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the preceding sentence, and subsequently one or both of the Rating Agencies withdraws its rating or downgrades the rating assigned to the notes below an Investment Grade Rating, then the Company and the Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants, and compliance with the Suspended Covenants with respect to Restricted Payments made after the time of such withdrawal or downgrade will be calculated in accordance with the terms of the covenant described below under Restricted Payments as though such covenant had been in effect since the date the notes were originally issued.

Restricted Payments

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of the Company s or any of its Restricted Subsidiaries Equity Interests (including, without limitation, any payment in connection with any merger or

consolidation involving the Company or any of its Restricted Subsidiaries) or to the direct or indirect holders of the Company s or any of its Restricted Subsidiaries Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Company and other than dividends or distributions payable to the Company or a Restricted Subsidiary of the Company);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving the Company) any Equity Interests of the Company or any direct or indirect parent of the Company;

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of the Company that is contractually subordinated to the notes (excluding any intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries), except a payment of interest or principal at the Stated Maturity thereof; or

(4) make any Restricted Investment (all such payments and other actions set forth in these clauses (1) through (4) being collectively referred to as *Restricted Payments*),

unless, at the time of and after giving effect to such Restricted Payment:

(a) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(b) the Company would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption Incurrence of Indebtedness and Issuance of Preferred Stock; and

(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Company and its Restricted Subsidiaries since the date of the supplemental indenture (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6), (7), (8), (9), (10), (11), (12) and (13) of the next succeeding paragraph), is less than the sum, without duplication, of:

(1) 50% of the Consolidated Net Income of the Company for the period (taken as one accounting period) from April 1, 2010 to the end of the Company s most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*

(2) 100% of the aggregate net cash proceeds received by the Company since the date of the supplemental indenture as a contribution to its common equity capital or from the issue or sale of Qualifying Equity Interests of the Company or from the issue or sale of convertible or exchangeable Disqualified Stock of the Company or convertible or exchangeable debt securities of the Company, in each case that have been converted into or exchanged for such Equity Interests of the Company (other than Equity Interests and convertible or exchangeable Disqualified Stock or debt securities sold to a Subsidiary of the Company); *plus*

(3) 100% of the aggregate net cash proceeds or Cash Equivalents received from the disposition or sale of any Restricted Investment that was made after the date of the supplemental indenture; *plus*

(4) 100% of the net reduction in Investments in any Person other than the Company or a Restricted Subsidiary resulting from dividends, repayment of loans or advances or other transfers of assets, in each case to the Company or any Restricted Subsidiary in such Person; *plus*

(5) to the extent that any Unrestricted Subsidiary of the Company designated as such after the date of the supplemental indenture is redesignated as a Restricted Subsidiary or is merged or consolidated with or into the Company or a Restricted Subsidiary after the date of the supplemental indenture, 100% of the lesser of (i) the Fair Market Value of the Company s Restricted Investment in such Subsidiary as of the date of such redesignation, merger or consolidation or (ii) such Fair Market Value as of the date on which such Subsidiary was

originally designated as an Unrestricted Subsidiary after the date of the supplemental indenture; *plus*

(6) 100% of any dividends received in cash by the Company or a Restricted Subsidiary of the Company after the date of the supplemental indenture from an Unrestricted Subsidiary of the Company, to the extent that such dividends were not otherwise included in the Consolidated Net Income of the Company for such period.

The preceding provisions will not prohibit:

(1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the indenture;

(2) the making of any Restricted Payment in exchange for, or out of or with the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of the Company) of, Equity Interests of the Company (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to the Company; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will not be considered to be net proceeds of Qualifying Equity Interests for purposes of clause (c)(2) of the preceding paragraph and will not be considered to be net cash proceeds from an Equity Offering for purposes of the Optional Redemption provisions of the indenture;

(3) the declaration or payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary of the Company to the holders of its Equity Interests on a pro rata basis;

(4) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Company that is contractually subordinated to the notes with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness;

(5) so long as no Default or Event of Default has occurred and is continuing, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Company or any Restricted Subsidiary of the Company held by any current or former officer, director or employee (and their respective permitted transferees under the applicable benefit plan, if any, under which such Equity Interests were made) of the Company or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, shareholders agreement or similar agreement; provided that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed in any calendar year $15.0 million (with unused amounts in any calendar year being carried over to succeeding calendar years subject to a maximum (without giving effect to the following proviso) of $25.0 million in any calendar year); *provided*, *further*, that such amount in any calendar year may be increased by an amount not to exceed:

(a) the cash proceeds from the sale of Equity Interests (other than Disqualified Stock) of the Company and, to the extent contributed to the Company as common equity capital, the cash proceeds from the sale of Equity Interests of any of the Company s direct or indirect parent companies, in each case to members of management, directors or consultants of the Company, any of its Subsidiaries or any of its direct or indirect parent companies that occurs after the date of the supplemental indenture to the extent the cash proceeds from the sale of Equity Interests of the Company (other than Disqualified Stock) have not otherwise been applied to the making of Restricted Payments pursuant to clause (c) of the preceding paragraph or clause (2) of this paragraph or to an optional redemption of notes pursuant to the Optional Redemption provisions of the indenture; plus

(b) the cash proceeds of key man life insurance policies received by the Company or its Restricted Subsidiaries after the date of the supplemental indenture;

and in addition, cancellation of Indebtedness owing to the Company from any current or former officer, director or employee (or any permitted transferees thereof) of the Company or any of its Restricted Subsidiaries (or any direct or indirect parent company thereof), in connection with a repurchase of Equity Interests of the Company from such Persons will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provisions of the indenture;

(6) the repurchase of Equity Interests deemed to occur (A) upon the exercise of stock options, warrants or similar rights to the extent such Equity Interests represent a portion of the exercise price of those stock options or warrants, (B) as a result of common shares utilized to satisfy tax withholding obligations upon exercise of stock options or vesting of other equity awards or (C) upon the cancellation of stock options, warrants or other equity awards.

(7) so long as no Default or Event of Default has occurred and is continuing, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Company or any preferred stock of any Restricted Subsidiary of the Company issued on or after the date of the supplemental indenture in accordance with the Fixed Charge Coverage Ratio test described below under the caption Incurrence of Indebtedness and Issuance of Preferred Stock;

(8) the declaration and payment of quarterly dividends to holders of common Equity Interests of the Company in an aggregate amount not to exceed $40.0 million in any calendar year;

(9) distributions or payments of Receivables Fees;

(10) other Restricted Payments in an aggregate amount not to exceed the greater of (A) $40.0 million and (B) 2.75% of the Company s Consolidated Total Assets;

(11) the declaration or payment of a dividend on, or the repurchase, redemption or other acquisition or retirement for value of, the preferred stock of the Company outstanding as of the date of the supplement indenture;

(12) cash payments made in lieu of the issuance of fractional shares (whether in connection with the exercise of warrants, options or other securities convertible into or exchangeable into capital stock of the Company or otherwise); and

(13) the repurchase or redemption of common stock or preferred stock purchase rights issued in connection with any shareholders rights plans.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment.

Incurrence of Indebtedness and Issuance of Preferred Stock

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, *incur*) any Indebtedness (including Acquired Debt), and the Company will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided*, *however*, that the Company may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock and the Company s Restricted Subsidiaries may incur Indebtedness (including Acquired Debt) or issue preferred stock, if the Fixed Charge Coverage Ratio for the Company s most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such

Disqualified Stock or such preferred stock is issued, as the case may be, would have been at least 2.0 to 1.0, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, *Permitted Debt*):

(1) the incurrence by the Company or any of its Restricted Subsidiaries of additional Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of the Company and its Restricted Subsidiaries thereunder), not to exceed the greater of (a) $450.0 million less the aggregate amount of all Net Proceeds of Asset Sales applied by the Company or any of its Restricted Subsidiaries since the date of the supplemental indenture to repay any term Indebtedness under a Credit Facility or to repay any revolving credit Indebtedness under a Credit Facility and effect a corresponding commitment reduction thereunder pursuant to the covenant described above under the caption Repurchase at the Option of Holders Asset Sales and (b) the Borrowing Base, based on the most recent fiscal quarter end for which an internal consolidated balance sheet of the Company is available;

(2) the incurrence by the Company and its Restricted Subsidiaries of the Existing Indebtedness (other than Indebtedness described in clauses (1) and (3) of this paragraph);

(3) the incurrence by the Company of Indebtedness represented by the notes to be issued on the date of the supplemental indenture;

(4) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price, whether by direct purchase of assets or the Capital Stock of any Person owning such assets, or cost of design, construction, installation or improvement of property, plant or equipment used in the business of the Company or any of its Restricted Subsidiaries, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (4), not to exceed the greater of (A) $50.0 million at any time outstanding and (B) 3.5% of the Company s Consolidated Total Assets;

(5) the incurrence by the Company or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted by the indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (5), (13) or (14) of this paragraph; provided, that with respect to Indebtedness incurred pursuant to our Convertible Notes, this clause (5) shall only apply to Indebtedness related to Convertible Notes that remain outstanding, if any, upon completion of the tender offer therefor, commenced July 27, 2010;

(6) the incurrence by the Company or any of its Restricted Subsidiaries of intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries; *provided*, *however*, that:

(a) if the Company is the obligor on such Indebtedness, such Indebtedness must be unsecured and expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the notes; and

(b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Company or a Restricted Subsidiary of the Company and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either the Company or a Restricted Subsidiary of the Company,

will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the issuance by any of the Company s Restricted Subsidiaries to the Company or to any of its Restricted Subsidiaries of shares of preferred stock; *provided*, *however*, that:

(a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than the Company or a Restricted Subsidiary of the Company; and

(b) any sale or other transfer of any such preferred stock to a Person that is not either the Company or a Restricted Subsidiary of the Company, will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);

(8) the incurrence by the Company or any of its Restricted Subsidiaries of Hedging Obligations in the ordinary course of business;

(9) the guarantee by the Company of Indebtedness of the Company or a Restricted Subsidiary of the Company that was permitted to be incurred by another provision of this covenant; *provided* that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the notes, then the guarantee must be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed;

(10) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness in respect of workers compensation claims, payment obligations in connection with health or other types of social security benefits, unemployment or other insurance or self-insurance obligations, reclamations, statutory obligations, bankers acceptances, performance, surety or similar bonds and reimbursement obligations with respect to letters of credit or completion or performance guarantees or other similar obligations in the ordinary course of business;

(11) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within five business days;

(12) the incurrence of Acquired Debt or Indebtedness by the Company or any of its Restricted Subsidiaries to finance the acquisition (including, without limitation, by way of a merger) of Capital Stock of any Person engaged in, or assets used or useful in, a Permitted Business and the incurrence by the Company or any of its Restricted Subsidiaries of any Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to, renew, refund, refinance, replace, defease or discharge any Indebtedness otherwise permitted to be incurred pursuant to this clause (12), but only so long as (a) the Fixed Charge Coverage Ratio for the Company s most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such Acquired Debt, additional Indebtedness or Permitted Refinancing Indebtedness is incurred would have been at least 1.75 to 1.0, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the Acquired Debt, additional Indebtedness or Permitted Refinancing Indebtedness had been incurred at the beginning of such four-quarter period and (b) the Company would, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, have had a Fixed Charge Coverage Ratio equal to or greater than the actual Fixed Charge Coverage Ratio for the Company for such four quarter period;

(13) the incurrence by the Company or any of its Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (13), not to exceed the greater of (A) $60.0 million and (B) 4.0% of the Company s Consolidated Total Assets;

(14) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness pursuant to any Recourse Non-U.S. Receivables Facility, in an aggregate principal amount at any one time outstanding, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance,

replace, defease or discharge any Indebtedness otherwise permitted to be incurred pursuant to this clause (14), not to exceed $100 million;

(15) the guarantee by a Restricted Subsidiary of Indebtedness of the Company under Credit Facilities;

(16) customary indemnification, adjustment of purchase price or similar obligations, in each case, incurred in connection with the acquisition or disposition of any assets or Capital Stock of the Company or any Restricted Subsidiary; and

(17) the incurrence of Indebtedness owing to any insurance company or broker in connection with the financing of insurance premiums in the ordinary course of business.

Notwithstanding the foregoing, Restricted Subsidiaries may incur Indebtedness (including Acquired Debt) or issue preferred stock pursuant to the first paragraph of this covenant and clauses (1), (4), (5), (12) and (13) of the second paragraph of this covenant, but only if the Priority Debt Leverage Ratio as of the date of incurrence of such Indebtedness or issuance of such preferred stock, as the case may be, would not exceed 2.25 to 1.0, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the preferred stock had been issued, as the case may be, at the beginning of the most recent four-quarter period for which internal financial statements are available. For the avoidance of doubt, this paragraph shall not apply to Indebtedness incurred in connection with clause (14) of the second paragraph of this covenant.

The Company will not incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Company unless such Indebtedness is also contractually subordinated in right of payment to the notes on substantially identical terms; provided, however, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Company solely by virtue of being unsecured or by virtue of being secured on junior priority basis.

For purposes of determining compliance with this Incurrence of Indebtedness and Issuance of Preferred Stock covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (17) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Company in its sole discretion will be permitted to classify such item of Indebtedness on the date of its incurrence, the Company may divide and classify an item of Indebtedness in one or more types of Indebtedness and the Company may later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. Indebtedness under Credit Facilities outstanding on the date on which notes are first issued and authenticated under the indenture will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt. Indebtedness under Recourse Non-U.S. Receivables Facilities outstanding on the date on which notes are first issued and authenticated under the indenture will initially be deemed to have been incurred on such date in reliance on the exception provided by clause (14) of the definition of Permitted Debt. The accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on preferred stock or Disqualified Stock in the form of additional shares of the same class of preferred stock or Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock or Disqualified Stock for purposes of this covenant; *provided*, in each such case, that the amount of any such accrual, accretion or payment is included in Fixed Charges of the Company as accrued. For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be utilized, calculated based on the relevant currency exchange rate in effect on the date of determination. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Company or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

(1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

(2) the principal amount of the Indebtedness, in the case of any other Indebtedness; and

(3) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

(a) the Fair Market Value of such assets at the date of determination; and
(b) the amount of the Indebtedness of the other Person; and

(4) in respect of any Hedging Obligations, the amount of such obligations to be equal at any time to the termination value of such agreement or arrangement.

For purposes of determining any particular amount of Indebtedness under this Incurrence of Indebtedness and Issuance of Preferred Stock covenant, guarantees, Liens, obligations with respect to letters of credit and other obligations supporting Indebtedness otherwise included in the determination of a particular covenant will not be included.

Liens

The Company will not and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind (other than Permitted Liens) securing Indebtedness, including Attributable Debt, on any property or asset, now owned or hereafter acquired, unless all payments due under the indenture and the notes are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction; *provided* that the Company and its Restricted Subsidiaries may enter into a sale and leaseback transaction if:

(1) the Company or the Restricted Subsidiary could have (a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the Fixed Charge Coverage Ratio test in the first paragraph of the covenant described above under the caption Incurrence of Indebtedness and Issuance of Preferred Stock and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption Liens;

(2) the gross cash proceeds of that sale and leaseback transaction are at least equal to the Fair Market Value, of the property that is the subject of that sale and leaseback transaction; and

(3) the transfer of assets in that sale and leaseback transaction is permitted by, and the Company or the Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described above under the caption Repurchase at the Option of Holders Asset Sales, if applicable.

Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock to the Company or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to the Company or any of its Restricted Subsidiaries;

(2) make loans or advances to the Company or any of its Restricted Subsidiaries; or

(3) sell, lease or transfer any of its properties or assets to the Company or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) agreements governing Existing Indebtedness and Credit Facilities as in effect on the date of the supplemental indenture and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the date of the supplemental indenture;

(2) the indenture and the notes;

(3) applicable law, rule, regulation or order;

(4) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Company or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture to be incurred;

(5) customary provisions in leases, subleases, joint venture agreements or other similar agreements, asset sale agreements, contracts and licenses entered into in the ordinary course of business;

(6) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;

(7) any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;

(8) Permitted Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(9) Liens permitted to be incurred under the provisions of the covenant described above under the caption Liens that limit the right of the debtor to dispose of the assets subject to such Liens;

(10) provisions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements entered into with the approval of the Board of Directors of the Company, which limitation is applicable only to the assets that are the subject of such agreements;

(11) restrictions on cash or other deposits or net worth imposed by leases or contracts with customers under contracts entered into in the ordinary course of business;

(12) restrictions created in connection with any Receivables Facility that, as certified in an officers certificate, are necessary or advisable to effect such Receivables Facility;

(13) any agreement with respect to Indebtedness of a Foreign Subsidiary of the Company permitted under the indenture so long as such prohibitions or limitations are only with respect to the properties and revenues of such Foreign Subsidiary or any Subsidiary of such Foreign Subsidiary; and

(14) any encumbrances or restrictions of the type referred to in clauses (1), (2) and (3) of the first paragraph above imposed by any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (1) through (13) above; *provided*, *however*, that the encumbrances or restrictions imposed by such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Company s Board of Directors, not materially less

favorable to the holders of the Notes than encumbrances and restrictions contained in such predecessor agreements.

Merger, Consolidation or Sale of Assets

The Company will not, directly or indirectly: (x) consolidate or merge with or into another Person (whether or not the Company is the surviving corporation), or (y) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) the Company is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of the United States, any state of the United States or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than the Company) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of the Company under the notes and the indenture, pursuant to a supplemental indenture;

(3) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and

(4) the Company or the Person formed by or surviving any such consolidation or merger (if other than the Company), or to which such sale, assignment, transfer, conveyance or other disposition has been made would, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, (i) be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption Incurrence of Indebtedness and Issuance of Preferred Stock or (ii) have had a Fixed Charge Coverage Ratio equal to or greater than the Fixed Charge Coverage Ratio for the Company immediately prior to such transaction.

In addition, the Company will not, directly or indirectly, lease all or substantially all the properties and assets of it and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to any other Person.

This Merger, Consolidation or Sale of Assets covenant will not apply to:

(1) any consolidation or merger, or any sale, assignment, transfer, conveyance, lease or other disposition of assets between or among the Company and any of its Restricted Subsidiaries; or

(2) (except for clauses (1) and (2) of the first paragraph of this covenant) a merger of the Company with an Affiliate solely for the purpose of reincorporating the Company in another jurisdiction.

Transactions with Affiliates

The Company will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, pay any dividend to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of the Company (each, an *Affiliate Transaction*) involving aggregate payments or consideration in excess of $5.0 million unless:

(1) the Affiliate Transaction is on terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or such Restricted Subsidiary with an unrelated Person; and

(2) the Company delivers to the trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $20.0 million, a resolution of the Board of Directors of the Company set forth in an officers certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of the Company; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $40.0 million, an opinion as to the fairness to the Company or such Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment agreement, employee benefit plan, officer or director indemnification agreement or any similar arrangement (including vacation plans, health and life insurance plans, deferred compensation plans, retirement or savings plans, and stock option, stock ownership or similar plans) entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business and payments pursuant thereto;

(2) transactions between or among the Company and/or its Restricted Subsidiaries;

(3) transactions with a Person (other than an Unrestricted Subsidiary of the Company) that is an Affiliate of the Company solely because the Company owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(4) Restricted Payments that do not violate the provisions of the indenture described above under the caption Restricted Payments or Permitted Investments;

(5) the payment of reasonable and customary compensation and fees paid to, and indemnities provided on behalf of (and entering into related agreements with) officers, directors, employees or consultants of the Company or any Restricted Subsidiary, as determined in good faith by the Board of Directors of the Company or senior management thereof;

(6) payments or loans (or cancellations of loans) to employees or consultants of the Company or any Restricted Subsidiary which are approved by the Board of Directors of the Company and which are otherwise permitted under the indenture, but in any event not to exceed $5.0 million in the aggregate outstanding at any one time;

(7) transactions with customers, clients, suppliers, or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the indenture that are fair to the Company or its Restricted Subsidiaries, in the reasonable determination of the members of the Board of Directors of the Company or the senior management thereof or are on terms at least as favorable as would reasonably have been entered into at such time with an unaffiliated party;

(8) the issuance of Equity Interests (other than Disqualified Stock) of the Company to Affiliates of the Company;

(9) the entering into of any customary tax sharing agreement or arrangement and any payments permitted by the covenants described under Restricted Payments;

(10) any contribution to the capital of the Company;

(11) transactions between the Company or any of its Restricted Subsidiaries and any Person, a director of which is also a director of the Company or any direct or indirect parent company of the Company and such director is the sole cause for such Person to be deemed an Affiliate of the Company or any of its Restricted Subsidiaries; provided, however, that such director abstains from voting as

director of the Company or such direct or indirect parent company, as the case may be, on any matter involving such other Person;

(12) pledges of Equity Interests of Unrestricted Subsidiaries;

(13) sales of accounts receivable, or participations therein, in connection with any Receivables Facility; and

(14) any agreement as in effect as of the date of the supplemental indenture, or any amendment thereto or renewal or replacement thereof (so long as any such amendment, renewal, or replacement is not disadvantageous to the holders of the notes when taken as a whole as compared to the applicable agreement as in effect on the date of the supplemental indenture).

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of the Company may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Company and its Restricted Subsidiaries in the Subsidiary designated as Unrestricted will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the first paragraph under the caption Restricted Payments or under one or more clauses of the definition of Permitted Investments, as determined by the Company. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of the Company may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

Any designation of a Subsidiary of the Company as an Unrestricted Subsidiary will be evidenced to the trustee by filing with the trustee a certified copy of a resolution of the Board of Directors giving effect to such designation and an officers certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption Restricted Payments. If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Company as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption Incurrence of Indebtedness and Issuance of Preferred Stock, the Company will be in default of such covenant. The Board of Directors of the Company may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary of the Company; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of the Company of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption Incurrence of Indebtedness and Issuance of Preferred Stock, calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation.

Payments for Consent

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the indenture or the notes unless such consideration is offered to be paid and is paid to all holders of the notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Reports

Whether or not required by the rules and regulations of the SEC, including the reporting requirements of Section 13 or 15(d) of the Exchange Act, so long as any notes are outstanding, the Company will file with the SEC (and provide the Trustee, within 15 days after it files them with the SEC),

(1) within 90 days after the end of each fiscal year, annual reports on Form 10-K (or any successor or comparable form),

(2) within 45 days after the end of each of the first three fiscal quarters of each fiscal year, reports on Form 10-Q (or any successor or comparable form),

(3) promptly from time to time after the occurrence of an event required to be reported on a Form 8-K filed (as opposed to furnished) with the SEC, such other reports on Form 8-K (or any successor or comparable form), and

(4) any other information, documents and other reports which the Company would be required to file with the SEC if it were subject to Section 13 or 15(d) of the Exchange Act.

provided, *however*, that the Company shall not be so obligated to file such reports with the SEC if the SEC does not permit such filing, in which event the Company will post the reports specified in the first sentence of this paragraph on its website within the time periods that would apply if the Company were required to file those reports with the SEC. Notwithstanding anything to the contrary in the foregoing, the Company will be deemed to have furnished such information referred to in the previous sentence to the Trustee if the Company has filed such reports and other information with the SEC via the EDGAR filing system (or any successor system) and such reports and other information are publicly available. All such reports will be prepared in all material respects in accordance with all of the rules and regulations applicable to such reports.

Future Subsidiary Guarantees

Our obligations under the notes initially will not be guaranteed by any of our Subsidiaries. However, in the event that any of our Subsidiaries other than a Foreign Subsidiary or an Unrestricted Subsidiary (any such Subsidiary, a *Subsidiary Guarantor*) guarantees or becomes a co-obligor with respect to any Indebtedness of the Company or another Subsidiary Guarantor for borrowed money other than Indebtedness under our Credit Facilities, such Subsidiary Guarantor will be required to guarantee the notes equally and ratably with such other Indebtedness pursuant to a supplement to the indenture.

The guarantee of a future Subsidiary Guarantor will be released:

(1) in connection with any consolidation or merger if the Subsidiary Guarantor or surviving Person will cease to be a Subsidiary of the Company;

(2) in connection with any sale or other disposition of all or substantially all of the assets of that Subsidiary Guarantor (including by way of merger or consolidation) to a Person that is not (either immediately before or immediately after giving effect to such transaction) the Company or a Restricted Subsidiary, if the sale or other disposition complies with the provisions of the covenant described under Repurchase at the Option of Holders Asset Sales;

(3) upon designation of the Subsidiary Guarantor as an Unrestricted Subsidiary in accordance with the provisions of the Indenture;

(4) in connection with any (direct or indirect) sale of Capital Stock or other transaction that results in the Subsidiary Guarantor ceasing to be a Subsidiary of the Company, if the sale or other transaction complies with the provisions of the covenant described under Repurchase at the Option of Holders Asset Sales;

(5) upon the release of the Subsidiary Guarantor from its liability in respect of the Indebtedness of the Company or another Subsidiary Guarantor that required the Subsidiary to initially guarantee the notes;

(6) upon legal defeasance of the notes or satisfaction and discharge of the Indenture as provided below under the captions Legal Defeasance and Covenant Defeasance and Satisfaction and Discharge; or

(7) with the consent of Holders of a majority in aggregate principal amount of notes then outstanding in accordance with the provisions described below under the caption Amendment, Supplement and Waiver.

The obligations of any guarantor under its subsidiary guarantee will be limited to the maximum amount that will not result in the obligations of the guarantor under the subsidiary guarantee constituting a fraudulent conveyance or fraudulent transfer under federal or state law, after giving effect to any other contingent and fixed liabilities of the guarantor. See Risk Factors Under U.S. federal and state fraudulent transfer or conveyance statues, a court could void the notes or take other actions detrimental to holders of the notes.

Events of Default and Remedies

Each of the following is an *Event of Default* :

(1) default for 30 days in the payment when due of interest on the notes;

(2) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, or premium, if any, on, the notes;

(3) failure by the Company or any of its Restricted Subsidiaries to comply with the provisions described under the caption Certain Covenants Merger, Consolidation or Sale of Assets;

(4) failure by the Company or any of its Restricted Subsidiaries for 30 days after notice to the Company by the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding voting as a single class to comply with the provisions described under the captions Repurchase at the Option of Holders Change of Control, Repurchase at the Option of Holders Asset Sales, Certain Covenants Restricted Payments or Certain Covenar Incurrence of Indebtedness and Issuance of Preferred Stock;

(5) failure by the Company or any of its Restricted Subsidiaries for 60 days after notice to the Company by the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding voting as a single class to comply with any of the other agreements in the indenture;

(6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed (other than Indebtedness owing to the Company or a Restricted Subsidiary) by the Company or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Company or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created after the date of the supplemental indenture, if that default:

(a) is caused by a failure to pay principal of, or interest or premium, if any, on, such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a *Payment Default*); or

(b) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $25.0 million or more and such Indebtedness has not been discharged or such acceleration has not been rescinded or annulled, as applicable;

(7) failure by the Company or any of its Restricted Subsidiaries to pay final judgments entered by a court or courts of competent jurisdiction aggregating in excess of $25.0 million (which are not covered by insurance or indemnity as to which the insurer or a creditworthy indemnitor has not disclaimed

coverage), which judgments are not paid, discharged or stayed for a period of 60 days after such judgments become final and non-appealable; and

(8) certain events of bankruptcy or insolvency described in the indenture with respect to the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of its Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to the Company or any Restricted Subsidiary of the Company that is a Significant Subsidiary or any group of Restricted Subsidiaries of the Company that, taken together, would constitute a Significant Subsidiary, all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding notes may declare all the notes to be due and payable immediately.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the notes notice of any continuing Default or Event of Default if it determines that withholding notice is in the interest of the holders, except a Default or Event of Default relating to the payment of principal, interest or premium, if any.

Subject to the provisions of the indenture relating to the duties of the trustee, in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any holders of notes unless such holders have offered to the trustee indemnity or security satisfactory to it against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no holder of a note may pursue any remedy with respect to the indenture or the notes unless:

(1) such holder has previously given the trustee notice that an Event of Default is continuing;

(2) holders of at least 25% in aggregate principal amount of the then outstanding notes have requested the trustee to pursue the remedy;

(3) such holders have offered the trustee reasonable security or indemnity against any loss, liability or expense;

(4) the trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) holders of a majority in aggregate principal amount of the then outstanding notes have not given the trustee a direction inconsistent with such request within such 60-day period.

The holders of a majority in aggregate principal amount of the then outstanding notes by notice to the trustee may, on behalf of the holders of all of the notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest or premium, if any, on, or the principal of, the notes.

The Company is required to deliver to the trustee annually a statement regarding compliance with the indenture. Within 10 days of becoming aware of any Default or Event of Default, the Company is required to deliver to the trustee a statement specifying such Default or Event of Default, its status and what action the Company is taking or is proposing to take with respect thereto.

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator or shareholder of the Company, as such, will have any liability for any obligations of the Company under the notes, the indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Legal Defeasance and Covenant Defeasance

The Company may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an officers certificate, elect to have all of its and any Subsidiary Guarantors obligations discharged with respect to the outstanding notes (*Legal Defeasance*) except for:

(1) the rights of holders of outstanding notes to receive payments in respect of the principal of, or interest or premium, if any, on, such notes when such payments are due from the trust referred to below;

(2) the Company s obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the trustee, and the Company s in connection therewith; and

(4) the Legal Defeasance and Covenant Defeasance provisions of the indenture.

In addition, the Company may, at its option and at any time, elect to have the obligations of the Company released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the indenture (*Covenant Defeasance*) and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, all Events of Default described under Events of Default and Remedies (except those relating to payments on the notes or bankruptcy, receivership, rehabilitation or insolvency) will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Company must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, or interest and premium, if any, on, the outstanding notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Company must specify whether the notes are being defeased to such stated date for payment or to a particular redemption date;

(2) in the case of Legal Defeasance, the Company must deliver to the trustee an opinion of counsel confirming that (a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the date of the supplemental indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Company must deliver to the trustee an opinion of counsel confirming that the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Company is a party or by which the Company is bound;

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the indenture) to which the

Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(6) the Company must deliver to the trustee an officers certificate stating that the deposit was not made by the Company with the intent of preferring the holders of notes over the other creditors of the Company with the intent of defeating, hindering, delaying or defrauding any creditors of the Company or others; and

(7) the Company must deliver to the trustee an officers certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the indenture or the notes may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the then outstanding notes (including, without limitation, additional notes, if any) voting as a single class (including, without limitation, consents obtained in connection with a tender offer or exchange offer for, or purchase of, the notes), and any existing Default or Event of Default (other than a Default or Event of Default in the payment of the principal of, premium on, if any, or interest, if any, on the notes, except a payment default resulting from an acceleration that has been rescinded) or compliance with any provision of the indenture or the notes may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding notes (including, without limitation, additional notes, if any) voting as a single class (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

Without the consent of each holder of notes affected, an amendment, supplement or waiver may not (with respect to any notes held by a non-consenting holder):

(1) reduce the principal amount of notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any note or alter or waive any of the provisions with respect to the redemption of the notes (except those provisions relating to the covenants described above under the caption Repurchase at the Option of Holders);

(3) reduce the rate of or extend the time for payment of interest, including default interest, on any note;

(4) waive a Default or Event of Default in the payment of principal of, or interest or premium, if any, on, the notes (except a rescission of acceleration of the notes by the holders of at least a majority in aggregate principal amount of the then outstanding notes and a waiver of the payment default that resulted from such acceleration);

(5) make any note payable in money other than that stated in the notes;

(6) make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of holders of notes to receive payments of principal of, or interest or premium, if any, on, the notes;

(7) waive a redemption payment with respect to any note (other than a payment required by one of the covenants described above under the caption Repurchase at the Option of Holders); or

(8) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of notes, the Company and the trustee may amend or supplement the indenture or the notes:

(1) to cure any ambiguity, defect or inconsistency;

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(2) to provide for uncertificated notes in addition to or in place of certificated notes;

(3) to provide for the assumption of the Company s obligations to holders of notes in the case of a merger or consolidation or sale of all or substantially all of the Company s assets;

(4) to make any change that would provide any additional rights or benefits to the holders of notes or that does not adversely affect the legal rights under the indenture of any such holder;

(5) to comply with requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act;

(6) to conform the text of the indenture or the notes to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the indenture or the notes, which intent shall be evidenced by an officers certificate to that effect;

(7) to provide for the issuance of additional notes in accordance with the limitations set forth in the indenture as of the date of the supplemental indenture; or

(8) to allow any Subsidiary to execute a supplement to the Indenture and/or a guarantee with respect to the notes and to release any Subsidiary from its guarantee in accordance with the terms of the Indenture.

Satisfaction and Discharge

The indenture will be discharged and will cease to be of further effect as to all notes issued thereunder, when:

(1) either:

(a) all notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has been deposited in trust and thereafter repaid to the Company, have been delivered to the trustee for cancellation; or

(b) all notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable or called for redemption within one year and the Company has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non- callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the notes not delivered to the trustee for cancellation for principal, premium, if any, and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Company is a party or by which the Company is bound;

(3) the Company has paid or caused to be paid all sums payable by it under the indenture; and

(4) the Company has delivered irrevocable instructions to the trustee under the indenture to apply the deposited money toward the payment of the notes at maturity or on the redemption date, as the case may be.

In addition, the Company must deliver an officers certificate and an opinion of counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Concerning the Trustee

If the trustee becomes a creditor of the Company, the indenture limits the right of the trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue as trustee (if the indenture has been qualified under the Trust Indenture Act) or resign.

The holders of a majority in aggregate principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default occurs and is continuing, the trustee will be required, in the exercise of its power, to use the same degree of care and skill as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless such holder has offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

Book-Entry, Delivery and Form

Except as described in the next paragraph, the notes will initially be issued in registered, global form without interest coupons (the *Global Notes*) in minimum denominations of $2,000 and integral multiples of $1,000 in excess of $2,000. Notes will be issued at the closing of this offering only against payment in immediately available funds. The Global Notes will be deposited upon issuance with the trustee as custodian for The Depository Trust Company (*DTC*) and registered in the name of DTC or its nominee, for credit to an account of a direct or indirect participant in DTC as described below.

Notes that are issued as described below under Certificated Notes will be issued in the form of registered definitive certificates (the *Certificated Notes*). Upon the transfer of Certificated Notes, Certificated Notes may, unless all Global Notes have previously been exchanged for Certificated Notes, be exchanged for an interest in the Global Note representing the principal amount of notes being transferred, subject to the transfer restrictions set forth in the indenture.

DTC has advised the Company that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the *Participants*) and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations and certain other organizations. Access to DTC s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the *Indirect Participants*). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Company that, pursuant to procedures established by it:

(1) upon deposit of the Global Notes, DTC will credit the accounts of the Participants designated by the underwriters with portions of the principal amount of the Global Notes; and

(2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Prospective purchasers are advised that the laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to such extent.

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So long as the Global Note Holder is the registered owner of any notes, the Global Note Holder will be considered the sole holder under the indenture of any notes evidenced by the Global Notes. Beneficial owners of notes evidenced by the Global Notes will not be considered the owners or holders of the notes under the indenture for any purpose, including with respect to the giving of any directions, instructions or approvals to the trustee thereunder. Neither the Company nor the trustee will have any responsibility or liability for any aspect of the records of DTC or for maintaining, supervising or reviewing any records of DTC relating to the notes.

Payments in respect of the principal of, and interest and premium, if any, on, a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the indenture. Under the terms of the indenture, the Company and the trustee will treat the Persons in whose names the notes, including the Global Notes, are registered as the owners of the notes for the purpose of receiving payments and for all other purposes. Consequently, neither the Company, the trustee nor any agent of the Company or the trustee has or will have any responsibility or liability for:

(1) any aspect of DTC s records or any Participant s or Indirect Participant s records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC s records or any Participant s or Indirect Participant s records relating to the beneficial ownership interests in the Global Notes; or

(2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Company that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participantsn-top:12px;margin-bottom:0px; text-indent:4%">Interest income and other of $461.0 million in 2006 was primarily the result of $412.1 million of interest income earned on cash, cash equivalents and marketable securities balances. In addition, we recognized $40.2 million of net gains on sales of marketable securities primarily as a result of the sale of our investment in Baidu and $5.3 million of net foreign exchange gains.

Interest income and other of $124.4 million in 2005 was primarily the result of $121.0 million of interest income earned on our cash, cash equivalents and marketable securities balances.

Provision for Income Taxes

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

	Year Ended December 31,			Three Months Ended	
	2005	2006	2007	September 30, 2007	December 31, 2007
				(unaudited)	
Provision for income taxes	$ 676.3	$ 933.6	$ 1,470.3	$ 402.3	$ 401.6
Effective tax rate	31.6%	23.3%	25.9%	27.3%	25.0%

Our provision for income taxes decreased $0.7 million from the three months ended September 30, 2007 to the three months ended December 31, 2007 primarily as a result of certain discrete tax charges and benefits recognized in the three months ended September 30, 2007 and December 31, 2007, partially offset by increases in federal and state income taxes, driven by higher taxable income period over period. Our effective tax rate decreased from the three months ended September 30, 2007 to the three months ended December 31, 2007, primarily as a result of certain discrete tax charges and benefits recognized in the three months ended September 30, 2007 and December 31, 2007.

Our provision for income taxes increased $536.7 million from 2006 to 2007. The increase in our provision for income taxes was primarily due to increases in federal and state income taxes, driven by higher taxable income period over period, partially offset by proportionately more earnings realized in countries where we have lower statutory tax rates in 2007 compared to 2006. Our effective tax rate increased from 2006 to 2007 primarily a result of greater discrete income tax benefits realized in 2006 than in 2007, partially offset by proportionately more earnings realized in countries where we have lower statutory tax rates in 2007 compared to 2006.

Our provision for income taxes increased $257.3 million from 2005 to 2006. The increase in our provision for income taxes was primarily due to increases in federal and state income taxes, driven by higher taxable income period over period, partially offset by the discrete income tax benefit realized in 2006 related to the reduction to certain of our income tax contingency reserves. Our effective tax rate decreased from 2005 to 2006 primarily because proportionately more of our earnings were recognized by our subsidiaries outside of the U.S. compared to in the U.S. in 2006 compared to 2005, and such earnings were taxed at a lower weighted average statutory tax rate than in the U.S.

Our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets or liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

See Critical Accounting Policies and Estimates included elsewhere in this Form 10-K for additional information about our provision for income taxes.

A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in Note 13 of Notes to Consolidated Financial Statements included in this Form 10-K.

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Quarterly Results of Operations

You should read the following tables presenting our quarterly results of operations in conjunction with the consolidated financial statements and related notes contained elsewhere in this Form 10-K. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. You should also keep in mind, as you read the following tables, that our operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

The following table presents our unaudited quarterly results of operations for the eight quarters ended December 2007. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair presentation of our financial position and operating results for the quarters presented. 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.

	Quarter Ended							
	Mar 31, 2006	Jun 30, 2006	Sep 30, 2006	Dec 31, 2006	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007
	(in thousands, except per share amounts) (unaudited)							
Consolidated Statements of Income Data:								
Revenues	$ 2,253,755	$ 2,455,991	$ 2,689,673	$ 3,205,498	$ 3,663,971	$ 3,871,985	$ 4,231,351	$ 4,826,679
Costs and expenses:								
Cost of revenues	904,119	989,032	1,048,728	1,283,148	1,470,426	1,560,255	1,662,579	1,955,825
Research and development	246,599	282,552	312,632	386,806	408,384	532,106	548,712	630,783
Sales and marketing	190,943	196,397	206,972	255,206	302,552	355,604	380,820	422,291
General and administrative	169,395	172,638	190,010	219,744	261,400	319,405	321,398	377,046
Total costs and expenses	1,511,056	1,640,619	1,758,342	2,144,904	2,442,762	2,767,370	2,913,509	3,385,945
Income from operations	742,699	815,372	931,331	1,060,594	1,221,209	1,104,615	1,317,842	1,440,734
Interest income and other, net	67,919	160,805	108,180	124,139	130,728	137,130	154,428	167,294
Income before income taxes	810,618	976,177	1,039,511	1,184,733	1,351,937	1,241,745	1,472,270	1,608,028
Provision for income taxes (1)	218,327	255,100	306,150	154,017	349,775	316,625	402,281	401,579
Net income	$ 592,291	$ 721,077	$ 733,361	$ 1,030,716	$ 1,002,162	$ 925,120	$ 1,069,989	$ 1,206,449
Net income per share of Class A and Class B common stock:								
Basic	$ 2.02	$ 2.39	$ 2.42	$ 3.36	$ 3.24	$ 2.98	$ 3.44	$ 3.86
Diluted	$ 1.95	$ 2.33	$ 2.36	$ 3.29	$ 3.18	$ 2.93	$ 3.38	$ 3.79

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The following table presents our unaudited quarterly results of operations as a percentage of revenues for the eight quarters ended December 31, 2007 (unaudited).

	Quarter Ended							
	Mar 31, 2006	Jun 30, 2006	Sep 30, 2006	Dec 31, 2006	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007
As Percentage of Revenues:								
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:								
Cost of revenues	40.1	40.3	39.0	40.0	40.1	40.3	39.3	40.5
Research and development	10.9	11.5	11.6	12.1	11.1	13.7	13.0	13.1
Sales and marketing	8.5	8.0	7.7	8.0	8.3	9.2	9.0	8.8
General and administrative	7.5	7.0	7.1	6.8	7.2	8.2	7.6	7.8
Total costs and expenses	67.0	66.8	65.4	66.9	66.7	71.4	68.9	70.2
Income from operations	33.0	33.2	34.6	33.1	33.3	28.6	31.1	29.8
Interest income and other, net	3.0	6.6	4.0	3.9	3.6	3.5	3.6	3.5
Income before income taxes	36.0	39.8	38.6	37.0	36.9	32.1	34.7	33.3
Net income	26.3%	29.4%	27.3%	32.2%	27.4%	23.9%	25.2%	25.0%

Liquidity and Capital Resources

In summary, our cash flows were:

	Year Ended December 31,		
	2005	2006	2007
		(in millions)	
Net cash provided by operating activities	$ 2,459.4	$ 3,580.5	$ 5,775.4
Net cash used in investing activities	(3,358.2)	(6,899.2)	(3,681.6)
Net cash provided by financing activities	4,370.8	2,966.4	403.1

As a result of our initial public offering in August 2004 and our follow-on public stock offerings in September 2005 and April 2006, we raised approximately $7.5 billion of net proceeds. At December 31, 2007, we had $14.2 billion of cash, cash equivalents and marketable securities. Cash equivalents and marketable securities are comprised of highly liquid debt instruments of the U.S. government and its agencies, municipalities in the U.S., time deposits as well as U.S. corporate securities. Note 3 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K describes further the composition of our cash, cash equivalents and marketable securities.

Our principal sources of liquidity are our cash, cash equivalents and marketable securities, as well as the cash flow that we generate from our operations. At December 31, 2007 and December 31, 2006, we had unused letters of credit for approximately $20.4 million and $17.7 million. We believe that our existing cash, cash equivalents, marketable securities and cash generated from operations will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months. Our liquidity could be negatively affected by a decrease in demand for our products and services. In addition, we may make acquisitions or license products and technologies complementary to our business and may need to raise additional capital through future debt or equity financing to provide for greater flexibility to fund any such acquisitions and licensing activities. Additional financing may not be available at all or on terms favorable to us.

Cash provided by operating activities consisted of net income adjusted for certain non-cash items, including depreciation, amortization, stock-based compensation expense, excess tax benefits from stock-based award activity and deferred income taxes, and the effect of changes in working capital and other activities. Cash provided by operating activities in 2007 was $5,775.4 million and consisted of net income of $4,203.7 million,

adjustments for non-cash items of $1,253.1 million and cash provided by working capital and other activities of $318.6 million. Adjustments for non-cash items primarily consisted of $868.6 million of stock-based compensation and $807.7 million of depreciation expense on property and equipment, partially offset by $379.2 million of excess tax benefits from stock-based award activity (see discussion below). In addition, changes in working capital activities primarily consisted of a net increase in income taxes payable and deferred income taxes of $744.8 million (which includes the same $379.2 million of excess tax benefits from stock-based awards included under adjustments for non-cash items), an increase in accrued expenses and other liabilities of $418.9 million, an increase in accrued revenue share of $150.3 million, an increase in accounts payable of $70.1 million and an increase in deferred revenue of $70.3 million. The increases in accounts payable and accrued expenses are a direct result of the growth of our business and increases in headcount. These increases to working capital activities were partially offset by an increase of $837.2 million in accounts receivable due to the growth in fees billed to our advertisers and an increase of $298.7 million in prepaid revenue shares, expenses and other assets.

Cash provided by operating activities in 2006 was $3,580.5 million and consisted of net income of $3,077.4 million, adjustments for non-cash items of $362.3 million and cash provided by working capital and other activities of $140.8 million. Adjustments for non-cash items primarily consisted of $494.4 million of depreciation expense on property and equipment and $458.1 million of stock-based compensation, partially offset by $581.7 million of excess tax benefits from stock-based award activity (see discussion below). In addition, working capital activities primarily consisted of an increase of $624.0 million in accounts receivable due to the growth in fees billed to our advertisers, partially offset by a net increase in income taxes payable and deferred income taxes of $496.9 million primarily comprised of the same $581.7 million of excess tax benefits from stock-based award activity included under adjustments for non-cash items, an increase of $386.9 million in accounts payable and accrued expenses due to the increase in purchases of property and equipment and other general expenditures, as well as a net increase of $149.9 million in prepaid revenue share, expenses and other assets and accrued revenue share primarily resulted from prepayments associated with AdSense and distribution arrangements.

Beginning January 1, 2006, SFAS 123R requires the benefits of tax deductions in excess of the tax-affected compensation that would have been recognized as if we had always accounted for our stock-based award activity under SFAS 123R to be reported as a cash flow from financing activities, rather than as a cash flow from operating activities, as was prescribed under accounting rules applicable through December 31, 2005. In compliance with the modified prospective transition method under SFAS 123R, these excess tax benefits from stock-based award activity generated in 2006, as well as those previously generated in 2005 under the then applicable accounting rules, are reported as a cash flow from financing activities and a cash flow from operating activities, respectively. The benefits of tax deductions in excess of the tax-affected compensation could fluctuate significantly from period to period based on the number of stock-based awards exercised, sold or vested, the tax benefit realized and the tax-affected compensation recognized.

Cash provided by operating activities in 2005 was $2,459.4 million and consisted of net income of $1,465.4 million, adjustments for non-cash and other items of $971.4 million and cash provided by working capital and other activities of $22.6 million. Adjustments for non-cash and other items primarily consisted of $256.8 million of depreciation and amortization expense on property and equipment and $200.7 million of stock-based compensation, $433.7 million of tax benefits from stock-based award activity, which represents a portion of the $552.5 million reduction to income taxes payable that we realized over 2005 related to the exercise, sale or vesting of these awards. Working capital activities primarily consisted of an increase of $372.3 million in accounts receivable due to growth in fees billed to our advertisers, an increase of $247.4 million in accounts payable and accrued expenses due to the increase in purchases of property and equipment, other general expenditures as well as an increase in compensation as a result of the growth in the number of employees, an increase of $93.3 million in accrued revenue share due to the growth in our AdSense programs and the timing of payments made to our Google Network members and a net decrease in income taxes receivable and deferred income taxes of $66.2 million.

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As we expand our business internationally, we have offered payment terms to certain advertisers that are standard in their locales, but longer than terms we would generally offer to our domestic advertisers. This may increase our working capital requirements and may have a negative effect on cash provided by our operating activities. In addition, since we have become a public company our cash-based compensation per employee has increased and will likely continue to increase (primarily in the form of variable bonus awards and other incentive arrangements) in order to retain and attract employees.

Cash used in investing activities in 2007 of $3,681.6 million was attributable to capital expenditures of $2,402.8 million, cash consideration used in acquisitions and other investments of $941.2 million, of which $545.7 million related to the acquisition of Postini in the third quarter of 2007, and net purchases of marketable securities of $337.6 million.

Cash used in investing activities in 2006 of $6,899.2 million was attributable to net purchases of marketable securities of $3,574.8 million primarily driven by the additional cash raised from our follow-on public stock offering in April 2006, cash consideration used in acquisitions and other investments of $1,421.6 million primarily related to our $1.0 billion investment in America Online, Inc. and to a lesser extent, the acquisition of dMarc Broadcasting, Inc. and capital expenditures of $1,902.8 million.

Cash used in investing activities in 2005 of $3,358.2 million was attributable to net purchases of marketable securities of $2,418.7 million, capital expenditures of $838.2 million and cash consideration used in acquisitions and other investments of $101.3 million, net of cash acquired. Capital expenditures are mainly for the purchase of information technology assets. In order to manage expected increases in internet traffic, advertising transactions and new products and services, and to support our overall global business expansion, we will continue to invest heavily in data center operations, technology, corporate facilities and information technology infrastructure in 2008 and thereafter.

In addition, we expect to spend a significant amount of cash on acquisitions and other investments from time to time. These acquisitions generally enhance the breadth and depth of our expertise in engineering and other functional areas, our technologies and our product offerings. In April 2007, we entered into an Agreement and Plan of Merger to acquire DoubleClick, a privately held company, for approximately $3.1 billion in cash. See Note 7 of Notes to Consolidated Financial Statements included as part of this Form 10-K for additional information on the pending DoubleClick acquisition.

In connection with certain acquisitions, we are obligated to make additional cash payments if certain criteria are met. As of December 31, 2007, our remaining contingent obligations related to these acquisitions was approximately $800 million. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower.

Also, as part of our philanthropic program, we expect to make donations as well as investments in for-profit enterprises that aim to alleviate poverty, improve the environment or achieve other socially or economically progressive objectives. We expect these payments to be made primarily in cash and to be approximately $175 million over the three years ending December 31, 2008, with any unallocated amounts to be rolled over into the following year.

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Cash provided by financing activities in 2007 of $403.1 million was due primarily to (i) excess tax benefits of $379.2 million from stock-based award activity during the period and (ii) net proceeds from the issuance of common stock pursuant to stock-based award activity of $23.9 million. As a result of our TSO program, proceeds from the exercise of stock options will be deferred and may be less than we would have received had we not adopted the TSO program. This is because the financial institutions that purchase TSOs will likely not exercise the related warrants until the expiration of the contractual term from the date of purchase (generally, two years), and then only if the market value exceeds the exercise price on the expiration date. Cash provided by financing activities in 2006 of $2,966.4 million was due primarily to (i) net proceeds of $2,063.5 million raised from the follow-on stock offering, (ii) excess tax benefits of $581.7 million from stock-based award activity during the period and (iii) net proceeds from the issuance of common stock pursuant to stock-based award activity of $321.1 million. Cash provided by financing activities in 2005 of $4,370.8 million was due primarily to net proceeds from our follow-on stock offering of $4,287.2 million, after consideration of related issuance costs of $66.8 million.

Contractual Obligations as of December 31, 2007

		Payments due by period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(unaudited, in millions)				
Guaranteed minimum revenue share payments	$ 1,746.4	$ 671.9	$ 902.6	$ 171.9	$
Operating lease obligations	2,203.7	151.6	328.7	288.7	1,434.7
Purchase obligations	734.0	171.6	229.5	165.2	167.7
Other long-term liabilities reflected on our balance sheet under GAAP	77.6	46.7	7.8	11.1	12.0
Total contractual obligations	$ 4,761.7	$ 1,041.8	$ 1,468.6	$ 636.9	$ 1,614.4

The above table does not include contingent consideration that may be paid pursuant to asset purchases or business combinations. It also does not include payments related to toolbar and other product distribution arrangements as those arrangements do not include guaranteed obligations.

Guaranteed Minimum Revenue Share Payments

In connection with our AdSense revenue share agreements, we are periodically required to make non-cancelable guaranteed minimum revenue share payments to a small number of our Google Network members over the term of the respective contracts. Under our contracts, these guaranteed payments can vary based on our Google Network members achieving defined performance terms, such as number of advertisements displayed or search queries. In some cases, certain guaranteed amounts will be adjusted downward if our Google Network members do not meet their performance terms and, in some cases, these amounts will be adjusted upward if they exceed their performance terms. The amounts included in the table above assume that the historical upward performance adjustments with respect to each contract will continue, but do not make a similar assumption with respect to downward adjustments. We believe these amounts best represent a reasonable estimate of the future minimum guaranteed payments. Actual guaranteed payments may differ from the estimates presented above. To date, the aggregate advertiser fees generated under these AdSense agreements have exceeded the aggregate guaranteed minimum revenue share payments.

At December 31, 2007, our aggregate outstanding non-cancelable guaranteed minimum revenue share commitments totaled $1,746.4 million through 2012 compared to $1,165.6 million at December 31, 2006.

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Operating Leases

We have entered into various non-cancelable operating lease agreements for certain of our offices, land and data centers throughout the world with original lease periods expiring between 2008 and 2051. We are committed to pay a portion of the related operating expenses under certain of these lease agreements. These operating expenses are not included in the table above. Certain of these leases have free or escalating rent payment provisions. We recognize rent expense under such leases on a straight-line basis over the term of the lease.

The above minimum payments at December 31, 2007 under operating lease obligations do not include amounts related to certain non-cancelable service contracts for our data centers. The non-cancelable commitments under these service contracts at December 31, 2007 are included under purchase obligations.

Purchase Obligations

Purchase obligations represent non-cancelable contractual obligations at December 31, 2007. In addition, we had $1,375.8 million of open purchase orders for which we have not received the related services or goods at December 31, 2007. This amount is not included in the above table since we have the right to cancel the purchase orders prior to the date of delivery. The majority of our purchase obligations are related to data center operations and facility build-outs. These non-cancelable contractual obligations and open purchase orders amounts do not include payments we may be obligated to make to vendors upon their attainment of milestones under the related agreements.

Other Long-Term Liabilities

Other long-term liabilities consist of cash obligations, primarily milestone and royalty payments owed in connection with certain acquisitions and licensing agreements.

In addition, upon adoption of Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* (FIN 48) on January 1, 2007, we decreased current taxes payable by $219.4 million and increased long-term taxes payable by the same amount as FIN 48 specifies that tax positions for which the timing of the ultimate resolution is uncertain should be recognized as long-term liabilities. We also recognized additional long-term taxes payable of $259.0 million in the year ended December 31, 2007. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes. As a result, this amount is not included in the table above.

Off-Balance Sheet Entities

At December 31, 2007 and 2006, we did not have interests in any variable interest entities, as defined by the Financial Accounting Standards Board Interpretation No. 46 (Revised 2003), *Consolidation of Variable Interest Entities An Interpretation of ARB No. 51*, having a significant effect on the financial statements.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the U.S. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. In some cases, we could reasonably have used different accounting policies and estimates. In some cases changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates, which we discuss further below. We have reviewed our critical accounting policies and estimates with the audit committee of our board of directors.

Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Effective January 1, 2007, we adopted Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

Our effective tax rates have differed from the statutory rate primarily due to the tax impact of foreign operations, research and experimentation tax credits, state taxes, and certain benefits realized related to stock option activity. The effective tax rate was 31.6%, 23.3% and 25.9% for 2005, 2006 and 2007. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets or liabilities, or by changes in tax laws, regulations, accounting principles, or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS 123R. Under the provisions of SFAS 123R, stock-based compensation cost is estimated at the grant date based on the award s fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility, forfeiture rates and expected option life. If any of the assumptions used in the BSM model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Traffic Acquisition Costs

We are obligated under certain agreements to make non-cancelable guaranteed minimum revenue share payments to Google Network members based on their achieving defined performance terms, such as number of search queries or advertisements displayed. To the extent we expect revenues generated under such an arrangement to exceed the guaranteed minimum revenue share payments, we recognize traffic acquisition costs on a contractual revenue share basis or on a basis proportionate to forecasted revenues, whichever is greater; if our estimate of revenues under such an arrangement is subsequently revised downward, then the amount of traffic acquisition costs we would recognize thereafter would be proportionately greater. Otherwise, we recognize the guaranteed revenue share payments as traffic acquisition costs on a straight-line basis over the term of the related agreements.

Effect of Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on December 14, 2007, the FASB issued proposed FSP FAS 157-b which would delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This proposed FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for 2008, we will adopt SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in proposed FSP FAS 157-b. The partial adoption of SFAS 157 will not have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities- including an Amendment of FASB Statement No. 115* (SFAS 159), which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to fair value will be recognized in earnings. SFAS 159 also establishes additional disclosure requirements. SFAS 159 is effective for us beginning January 1, 2008. We are currently evaluating the potential impact of the adoption of SFAS 159 on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of SFAS 141R on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of SFAS 160 on our consolidated financial position, results of operations or cash flows.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Exchange Risk

Our exposure to foreign currency transaction gains and losses is the result of certain net receivables due from our foreign subsidiaries and customers being denominated in currencies other than the U.S. dollar, primarily the British pound, the euro, the Canadian dollar and the Japanese yen. Our foreign subsidiaries conduct their businesses in local currency. Our board of directors approved a foreign exchange hedging program designed to minimize the future potential impact due to changes in foreign currency exchange rates. The program allows for the hedging of transaction exposures. The types of derivatives that can be used under the policy are forward contracts, options and foreign exchange swaps. We also generate revenue in certain countries in Asia where there are limited forward currency exchange markets, thus making these exposures difficult to hedge. We have entered into forward foreign exchange contracts to offset the foreign exchange risk on certain intercompany assets, as well as cash denominated in currencies other than the local currency of the subsidiary. The notional principal of forward foreign exchange contracts to purchase U.S. dollars with euros and Taiwan dollars was $1,498.6 million at December 31, 2007. The notional principal of forward foreign exchange contracts to purchase euros with British pounds, Japanese yen, Australian dollars and Swedish krona was 296.5 million (or approximately $433.4 million) at December 31, 2007. There were no other forward exchange contracts outstanding at December 31, 2007.

Our exposure to foreign currency translation gains and losses arises from the translation of the assets and liabilities of our subsidiaries to U.S. dollars during consolidation. We recognized translation gains of $61.0 million in 2007 primarily as a result of generally strengthening foreign currencies against the U.S. dollar and the net asset position of most of our subsidiaries.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 10% for all currencies could be experienced in the near term. These changes would have resulted in an adverse impact on income before taxes of approximately $11.6 million and $39.7 million at December 31, 2006 and December 31, 2007. The adverse impact at December 31, 2006 and 2007 is after consideration of the offsetting effect of approximately $113.6 million and $163.7 million from forward exchange contracts in place for the months of December 2006 and December 2007. These reasonably possible adverse changes in exchange rates of 10% were applied to total monetary assets denominated in currencies other than the local currencies at the balance sheet dates to compute the adverse impact these changes would have had on our income before taxes in the near term.

Interest Rate Risk

We invest in a variety of securities, consisting primarily of investments in interest-bearing demand deposit accounts with financial institutions, tax-exempt money market funds and highly liquid debt securities of corporations and municipalities. By policy, we limit the amount of credit exposure to any one issuer.

Investments in both fixed rate and floating rate interest earning products carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due in part to these factors, our income from investments may decrease in the future.

We considered the historical volatility of short term interest rates and determined that it was reasonably possible that an adverse change of 100 basis points could be experienced in the near term. A hypothetical 1.00% (100 basis-point) increase in interest rates would have resulted in a decrease in the fair values of our marketable securities of approximately $98.8 million and $86.7 million at December 31, 2006 and December 31, 2007.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Google Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Contents

The supplementary financial information required by this Item 8 is included in Item 7 under the caption Quarterly Results of Operations.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Google Inc.

We have audited the accompanying consolidated balance sheets of Google Inc. as of December 31, 2006 and 2007, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Google Inc. at December 31, 2006 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2006, Google Inc. changed its method of accounting for share-based payments in accordance with the guidance provided in Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*. As discussed in Note 13 to the consolidated financial statements, in 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No.109.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Google Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 14, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Google Inc.

We have audited Google Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Google Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Google Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Google Inc. as of December 31, 2006 and 2007, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007, and our report dated February 14, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 14, 2008

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Google Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value per share)

	As of December 31, 2006	As of December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 3,544,671	$ 6,081,593
Marketable securities	7,699,243	8,137,020
Accounts receivable, net of allowance of $16,914 and $32,887	1,322,340	2,162,521
Deferred income taxes, net	29,713	68,538
Income taxes receivable		145,253
Prepaid revenue share, expenses and other assets	443,880	694,213
Total current assets	13,039,847	17,289,138
Prepaid revenue share, expenses and other assets, non-current	114,455	168,530
Deferred income taxes, net, non-current		33,219
Non-marketable equity securities	1,031,850	1,059,694
Property and equipment, net	2,395,239	4,039,261
Intangible assets, net	346,841	446,596
Goodwill	1,545,119	2,299,368
Total assets	$ 18,473,351	$ 25,335,806
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 211,169	$ 282,106
Accrued compensation and benefits	351,671	588,390
Accrued expenses and other current liabilities	266,247	465,032
Accrued revenue share	370,364	522,001
Deferred revenue	105,136	178,073
Total current liabilities	1,304,587	2,035,602
Deferred revenue, long-term	20,006	30,249
Deferred income taxes, net	40,421	
Income taxes payable, long-term		478,372
Other long-term liabilities	68,497	101,904
Commitments and contingencies		
Stockholders equity:		
Convertible preferred stock, $0.001 par value, 100,000 shares authorized; no shares issued and outstanding		
Class A and Class B common stock, $0.001 par value per share: 9,000,000 shares authorized; 308,997 (Class A 227,670, Class B 81,327) and par value of $309 (Class A $228, Class B $81) and 312,917 (Class A 236,097, Class B 76,820) and par value of $313 (Class A $236, Class B $77) shares issued and outstanding, excluding 1,296 (Class A 1,045 Class B 251) and 361 (Class A 336, Class B 25) shares subject to repurchase (see Note 11) at December 31, 2006 and 2007	309	313
Additional paid-in capital	11,882,906	13,241,221
Accumulated other comprehensive income	23,311	113,373
Retained earnings	5,133,314	9,334,772
Total stockholders equity	17,039,840	22,689,679

Total liabilities and stockholders equity	$ 18,473,351	$ 25,335,806

See accompanying notes.

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Google Inc.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Year Ended December 31, 2005	2006	2007
Revenues	$ 6,138,560	$ 10,604,917	$ 16,593,986
Costs and expenses:			
Cost of revenues (including stock-based compensation expense of $5,579, $17,629, $22,335)	2,577,088	4,225,027	6,649,085
Research and development (including stock-based compensation expense of $115,532, $287,485, $569,797)	599,510	1,228,589	2,119,985
Sales and marketing (including stock-based compensation expense of $28,411, $59,389, $131,638)	468,152	849,518	1,461,266
General and administrative (including stock-based compensation expense of $51,187, $93,597, $144,876)	386,532	751,787	1,279,250
Contribution to Google Foundation	90,000		
Total costs and expenses	4,121,282	7,054,921	11,509,586
Income from operations	2,017,278	3,549,996	5,084,400
Interest income and other, net	124,399	461,044	589,580
Income before income taxes	2,141,677	4,011,040	5,673,980
Provision for income taxes	676,280	933,594	1,470,260
Net income	$ 1,465,397	$ 3,077,446	$ 4,203,720
Net income per share of Class A and Class B common stock:			
Basic	$ 5.31	$ 10.21	$ 13.53
Diluted	$ 5.02	$ 9.94	$ 13.29

See accompanying notes.

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Google Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)

	Class A and Class B Common Stock Shares	Class A and Class B Common Stock Amount	Additional Paid-In Capital Amount	Deferred Stock Based Compensation	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders Equity
Balance at January 1, 2005	266,917	$ 267	$ 2,582,352	$ (249,470)	$ 5,436	$ 590,471	$ 2,929,056
Issuance of common stock in connection with follow-on public offering and acquisitions, net	14,869	15	4,316,022	(2,036)			4,314,001
Stock-based award activity	11,241	11	579,418	132,491			711,920
Comprehensive income:							
Change in unrealized gain (loss) on available-for-sale investments, net of tax effect of $11,404					16,580		16,580
Foreign currency translation adjustment					(17,997)		(17,997)
Net income						1,465,397	1,465,397
Total comprehensive income							1,463,980
Balance at December 31, 2005	293,027	293	7,477,792	(119,015)	4,019	2,055,868	9,418,957
Issuance of common stock in connection with follow-on public offering and acquisitions, net	7,689	8	3,236,778				3,236,786
Stock-based award activity	8,281	8	1,168,336	119,015			1,287,359
Comprehensive income:							
Change in unrealized gain (loss) on available-for-sale investments, net of tax effect of $13,280					(19,309)		(19,309)
Foreign currency translation adjustment					38,601		38,601
Net income						3,077,446	3,077,446
Total comprehensive income							3,096,738
Balance at December 31, 2006	308,997	309	11,882,906		23,311	5,133,314	17,039,840
Stock-based award activity	3,920	4	1,358,315				1,358,319
Comprehensive income:							
Change in unrealized gain (loss) on available-for-sale investments, net of tax effect of $19,963					29,029		29,029
Foreign currency translation adjustment					61,033		61,033
Net income						4,203,720	4,203,720
Total comprehensive income							4,293,782
Adjustment to retained earnings upon adoption of FIN 48						(2,262)	(2,262)
Balance at December 31, 2007	312,917	$ 313	$ 13,241,221	$	$ 113,373	$ 9,334,772	$ 22,689,679

See accompanying notes.

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Google Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31, 2005	2006	2007
Operating activities			
Net income	$ 1,465,397	$ 3,077,446	$ 4,203,720
Adjustments:			
Depreciation and amortization of property and equipment	256,812	494,430	807,743
Amortization of intangibles and other	37,000	77,509	159,915
Stock-based compensation	200,709	458,100	868,646
Excess tax benefits from stock-based award activity	433,724	(581,732)	(379,206)
Deferred income taxes	21,163	(98,468)	(164,212)
Other, net	22,040	12,474	(39,741)
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(372,290)	(624,012)	(837,247)
Income taxes, net	66,237	496,882	744,802
Prepaid revenue share, expenses and other assets	(51,663)	(289,157)	(298,689)
Accounts payable	80,631	95,402	70,135
Accrued expenses and other liabilities	166,764	291,533	418,905
Accrued revenue share	93,347	139,300	150,310
Deferred revenue	39,551	30,801	70,329
Net cash provided by operating activities	2,459,422	3,580,508	5,775,410
Investing activities			
Purchases of property and equipment	(838,217)	(1,902,798)	(2,402,840)
Purchase of marketable securities	(12,675,880)	(26,681,891)	(15,997,060)
Maturities and sales of marketable securities	10,257,214	23,107,132	15,659,473
Investments in non-marketable equity securities		(1,019,147)	(34,511)
Acquisitions, net of cash acquired and purchases of intangible and other assets	(101,310)	(402,446)	(906,651)
Net cash used in investing activities	(3,358,193)	(6,899,150)	(3,681,589)
Financing activities			
Net proceeds from stock-based award activity	85,026	321,117	23,861
Excess tax benefits from stock-based award activity		581,732	379,206
Net proceeds from public offerings	4,287,229	2,063,549	
Payments of principal on capital leases and equipment loans	(1,425)		
Net cash provided by financing activities	4,370,830	2,966,398	403,067
Effect of exchange rate changes on cash and cash equivalents	(21,758)	19,741	40,034
Net increase (decrease) in cash and cash equivalents	3,450,301	(332,503)	2,536,922
Cash and cash equivalents at beginning of year	426,873	3,877,174	3,544,671
Cash and cash equivalents at end of year	$ 3,877,174	$ 3,544,671	$ 6,081,593

Supplemental disclosures of cash flow information						
Cash paid for interest	$	216	$	257	$	1,336
Cash paid for taxes	$	153,628	$	537,702	$	882,688
Acquisition related activities:						
Issuance of equity in connection with acquisitions, net	$	22,407	$	1,173,234	$	

See accompanying notes.

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of Operations

We were incorporated in California in September 1998. We were re-incorporated in the State of Delaware in August 2003. We provide highly targeted advertising and global internet search solutions as well as intranet solutions via an enterprise search appliance.

Basis of Consolidation

The consolidated financial statements include the accounts of Google and our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to the accounts receivable and sales allowances, fair values of marketable and non-marketable securities, fair values of prepaid revenue share, intangible assets and goodwill, useful lives of intangible assets, property and equipment, fair values of options to purchase our common stock, and income taxes, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Revenue Recognition

The following table presents our revenues:

	Year Ended December 31,		
	2005	2006 (in thousands)	2007
Advertising revenues:			
Google web sites	$ 3,377,060	$ 6,332,797	$ 10,624,705
Google Network web sites	2,687,942	4,159,831	5,787,938
Total advertising revenues	6,065,002	10,492,628	16,412,643
Licensing and other revenues	73,558	112,289	181,343
Revenues	$ 6,138,560	$ 10,604,917	$ 16,593,986

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

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

available to our advertisers. However, during the second quarter of 2005, we launched an AdWords program that enables advertisers to pay us based on the number of times their ads appear on Google Network member sites specified by the advertiser.

Google AdSense is the program through which we distribute our advertisers ads for display on the web sites of our Google Network members.

We recognize as revenues the fees charged advertisers each time a user clicks on one of the text-based ads that are displayed next to the search results pages on our site or on the search results pages or content pages of our Google Network members web sites and, for those advertisers who use our cost-per impression pricing, the fees charged advertisers each time an ad is displayed on our members sites. In addition, we recognize as revenues the fees charged advertisers when ads are published in the magazines or broadcasted by the radio stations (or each time a listener responds to that ad) of our Google Network members. We recognize these revenues as such because the services have been provided, and the other criteria set forth under Staff Accounting Bulletin Topic 13: *Revenue Recognition* have been met, namely, the fees we charge are fixed or determinable, we and our advertisers understand the specific nature and terms of the agreed-upon transactions and collectibility is reasonably assured. In accordance with Emerging Issues Task Force (EITF) Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent* (EITF 99-19), we report our Google AdSense revenues on a gross basis principally because we are the primary obligor to our advertisers.

In the third quarter of 2005, we launched the 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 second quarter of 2006, we launched Google Checkout, an online shopping payment processing system for both consumers and merchants. We recognize as revenues 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, are accounted for as an offset to revenues in accordance with EITF Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products).*

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 announced our trial to deliver Google TV ads to viewers and help 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.

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 term of the service arrangement.

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenues realized through the Google Print Ads Program, Google Audio Ads, Google TV Ads, Google Checkout, YouTube and Postini were not material in any of the years presented.

We generate fees from search services on a per-query basis. Our policy is to recognize revenues from per-query search fees in the period we provide the search results.

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

Deferred revenue is recorded when payments are received in advance of our performance in the underlying agreement on the accompanying Consolidated Balance Sheets.

Cost of Revenues

Cost of revenues consists primarily of traffic acquisition costs. Traffic acquisition costs consist of amounts ultimately paid to our Google Network members under AdSense arrangements and to certain other partners (our distribution partners) who distribute our toolbar and other products (collectively referred to as access points) or otherwise direct search queries to our web site (collectively referred to as distribution arrangements). These amounts are primarily based on the revenue share arrangements with our Google Network members and distribution partners. Certain distribution arrangements require us to pay our partners based on a fee per access point delivered and not exclusively or at all based on revenue share. We recognize fees under these arrangements over the estimated useful lives of the access points (two years) to the extent we can reasonably estimate those lives or based on any contractual revenue share, if greater. Otherwise, the fees are charged to expense as incurred.

In addition, certain AdSense agreements obligate us to make guaranteed minimum revenue share payments to Google Network members based on their achieving defined performance terms, such as number of search queries, advertisements displayed. To the extent we expect revenues generated under such an arrangement to exceed the guaranteed minimum revenue share payments, we recognize traffic acquisition costs on a contractual revenue share basis or on a basis proportionate to forecasted revenues, whichever is greater. Otherwise, we recognize the guaranteed revenue share payments as traffic acquisition costs on a straight-line basis over the term of the related agreements. In addition, concurrent with the commencement of a small number of AdSense and other agreements, we have purchased certain items from, or provided other consideration to, our Google Network members and partners. We have determined that certain of these amounts are prepaid traffic acquisition costs and are amortized on a straight-line basis over the terms of the related agreements. Traffic acquisition costs were $2,114.9 million, $3,308.8 million and $4,933.9 million in 2005, 2006 and 2007.

Prepaid revenue share and distribution fees are included in prepaid revenue share, expenses and other assets on the accompanying Consolidated Balance Sheets.

In addition, cost of revenues includes the expenses associated with the operation of our data centers, including depreciation, labor, energy and bandwidth costs, as well as credit card and other transaction fees related to processing customer transactions including Google Checkout transactions, as well as content acquisition costs. We have entered into arrangements with certain content providers under which we distribute or license their video and other content. In a number of these arrangements we display ads on the pages of our

Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

web sites and our Google Network members web sites from which the content is viewed and share most of the fees these ads generate with the content providers and the Google Network members. To the extent we are obligated to make guaranteed minimum revenue share or other payments to our content providers, we recognize content acquisition costs equal to the greater of the following three amounts: the contractual revenue share amount, if any, based on the number of times the content is displayed, or on a straight-line basis over the terms of the agreements.

Stock-based Compensation

Prior to January 1, 2006, we accounted for employee stock-based compensation using the intrinsic value method supplemented by pro forma disclosures in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148). Effective January 1, 2006, we adopted SFAS No. 123R, *Share-Based Payment* (SFAS 123R) using the modified prospective approach and accordingly prior periods have not been restated to reflect the impact of SFAS 123R.

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

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

In compliance with SFAS 123R, we included as part of cash flows from financing activities the benefits of tax deductions in excess of the tax-effected compensation of the related stock-based awards for the options exercised and RSUs vested during the years ended December 31, 2006 and 2007, whereas the excess tax benefits previously generated in 2005 under the then applicable accounting rules, are reported as a cash flow from operating activities. Total cash flow remains unchanged from what would have been reported under prior accounting rules. During the year ended December 31, 2007, the amount of cash received from exercise of stock options was $137.2 million and the total direct tax benefit realized, including the excess tax benefit, from stock based award activity was $463.2 million. We have elected to account for the indirect effects of stock-based awards primarily the research and development tax credit through the income statement.

We account for stock awards issued to non-employees other than members of our board of directors in accordance with the provisions of SFAS 123R and EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* (EITF 96-18). Under SFAS 123R and EITF 96-18, we use the BSM method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to stock-based compensation.

In the years ended December 31, 2006 and 2007, we recognized stock-based compensation and related tax benefits of $458.1 million and $108.9 million, and $868.6 million and $143.0 million respectively.

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Prior to the adoption of SFAS 123R, we accounted for our employee stock-based compensation using the intrinsic value method prescribed by APB 25. We applied below the disclosure provisions of SFAS 123, as amended by SFAS No. 148, as if the fair value method had been applied. If this method had been used, our net income and net income per share for the years ended December 31, 2005 would have been adjusted to the pro forma amounts below (in thousands, except per share amounts):

	Year Ended December 31, 2005
Net income, as reported	$ 1,465,397
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	117,924
Deduct: Total stock-based employee compensation expense under the fair value based method for all awards, net of related tax effects	(220,525)
Net income, pro forma	$ 1,362,796
Net income per share:	
As reported for prior period basic	$ 5.31
Pro forma basic	$ 4.94
As reported for prior period diluted	$ 5.02
Pro forma diluted	$ 4.67

For purposes of the above pro forma calculation, the value of each option granted through December 31, 2005 was estimated on the date of grant using the BSM pricing model with the following weighted-average assumptions.

	Year Ended December 31, 2005
Risk-free interest rate	3.86%
Expected volatility	36%
Expected life (in years)	3.1
Dividend yield	
Weighted-average estimated fair value of options granted during the year	$ 78.58

Stock Options Exercised Prior to Vesting

Options granted under plans other than the 2004 Stock Plan may be exercised prior to vesting. Upon the exercise of an option prior to vesting, the exercising optionee is required to enter into a restricted stock purchase agreement with us, which provides that we have a right to repurchase the shares purchased upon exercise of the option at the original exercise price; provided, however, that our right to repurchase these shares will lapse in accordance with the vesting schedule included in the optionee s option agreement. In accordance with EITF 00-23, *Issues Related to Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44* (EITF 00-23), stock options granted or modified after March 21, 2002, which are subsequently exercised for cash prior to vesting are treated differently from prior grants and related exercises. The consideration received for an exercise of an option granted after the effective date of this guidance is considered to be a deposit of the exercise price and the related dollar amount is recorded as a liability. The shares and liability are only reclassified into equity on a ratable basis as the award vests. We have applied this guidance and recorded a liability on the Consolidated Balance Sheets relating to 1,296,155 and 360,679 of options granted subsequent to March 21, 2002 that were exercised and are unvested at December 31, 2006 and 2007. Furthermore, these shares are not presented as outstanding on the accompanying Consolidated Statements of

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stockholders Equity and Consolidated Balance Sheets. Instead, these shares are disclosed as outstanding options in Note 11 to these financial statements.

Certain Risks and Concentrations

Our revenues are principally derived from online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or changes in customer buying behavior could adversely affect our operating results.

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, marketable securities and accounts receivable. Cash equivalents and marketable securities consist primarily of money market funds and highly liquid debt instruments of municipalities in the U.S. and the U.S. government and its agencies. Accounts receivable are typically unsecured and are derived from revenues earned from customers primarily located in the U.S. In 2005, 2006 and 2007, we generated approximately 61%, 57% and 52% of our revenues from customers based in the U.S. with the majority of customers outside of the U.S. located in Europe and Japan. Many of our Google Network members are in the internet industry. We perform ongoing evaluations to determine customer credit and limit the amount of credit extended, but generally no collateral is required. We maintain reserves for estimated credit losses and these losses have generally been within our expectations.

No advertiser or Google Network member generated greater than 10% of revenues in 2005, 2006 and 2007.

Fair Value of Financial Instruments

The carrying amounts of our financial instruments, including cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities, approximate fair value because of their generally short maturities.

Cash and Cash Equivalents and Marketable Securities

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

We determine the appropriate classification of our investments in marketable securities at the time of purchase and reevaluate such designation at each balance sheet date. Our marketable securities have been classified and accounted for as available-for-sale. We may or may not hold securities with stated maturities greater than 12 months until maturity. In response to changes in the availability of and the yield on alternative investments as well as liquidity requirements, we occasionally sell these securities prior to their stated maturities. As these securities are viewed by us as available to support current operations, based on the provisions of Accounting Research Bulletin No. 43, Chapter 3A, *Working Capital*-Current Assets and Liabilities, securities with maturities beyond 12 months (such as our auction rate securities) are classified as current assets under the caption marketable securities in the accompanying Consolidated Balance Sheets. These securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders equity, except for unrealized losses determined to be other than temporary which are recorded as interest income and other, net, in accordance with our policy and FASB Staff Position (FSP) Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*. Any realized gains or

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

losses on the sale of marketable securities are determined on a specific identification method, and such gains and losses are reflected as a component of interest income and other, net.

Non-Marketable Equity Securities

We have accounted for non-marketable equity security investments at historical cost because we do not have significant influence over the underlying investees. These investments are subject to a periodic impairment review. To the extent any impairment is considered other-than-temporary, the investment is written down to its fair value and the loss is recorded as interest income and other, net.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and are non-interest bearing. We maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables. We review the accounts receivable by amounts due by customers which are past due to identify specific customers with known disputes or collectibility issues. In determining the amount of the reserve, we make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. We also maintain a sales allowance to reserve for potential credits issued to customers. The amount of the reserve is determined based on historical credits issued.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally two to five years. Buildings are depreciated over periods up to 25 years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets. Construction in process is primarily related to the construction or development of property and equipment. Depreciation for equipment commences once it is placed in service and depreciation for buildings and leasehold improvements commences once they are ready for their intended use.

Software Development Costs

We account for software development costs, including costs to develop software products or the software component of products to be marketed to external users, as well as software programs to be used solely to meet our internal needs in accordance with SFAS No. 86, *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed* and Statement of Position No. 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*. We have determined that technological feasibility for our products to be marketed to external users was reached shortly before the release of those products. As a result, the development costs incurred after the establishment of technological feasibility and before the release of those products were not material, and accordingly, were expensed as incurred. In addition, costs incurred during the application development stage for software programs to be used solely to meet our internal needs were not material.

Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets

We review property and equipment and intangible assets, excluding goodwill, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of carrying amounts to the future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds

Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

its fair market value. We have made no material adjustments to our long-lived assets in any of the years presented. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we test our goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that this asset may be impaired. Our tests are based on our single operating segment and reporting unit structure. We found no material impairment in any of the years presented.

SFAS No. 142 also requires that intangible assets with definite lives be amortized over their estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate an asset s carrying value may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* We are currently amortizing our acquired intangible assets with definite lives over periods ranging primarily from one to seven years.

Income Taxes

We recognize income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Foreign Currency

Generally, the functional currency of our international subsidiaries is the local currency. The financial statements of these subsidiaries are translated to U.S. dollars using month-end rates of exchange for assets and liabilities, and average rates of exchange for revenues, costs and expenses. Translation gains and losses are recorded in accumulated other comprehensive income as a component of stockholders equity. We recorded $18.0 million of net translation losses, and $38.6 million and $61.0 million of net translation gains in 2005, 2006 and 2007, respectively. Net gains and losses resulting from foreign exchange transactions are recorded as interest income and other, net. These gains and losses are net of those realized on forward foreign exchange contracts. We recorded $6.3 million and $5.3 million of net gains, and $16.2 million of net losses in 2005, 2006 and 2007 from assets and liabilities denominated in a currency other than the local currency.

Derivative Financial Instruments

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

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, we recognize derivative instruments as either assets or liabilities on the balance sheet at fair value. These forward exchange contracts are not accounted for as hedges and, therefore, changes in the fair value of these instruments are recorded as interest income and other, net. Neither the cost nor the fair value of these forward foreign exchange contracts was material at December 31, 2007. The notional principal of forward foreign exchange contracts to purchase U.S. dollars with foreign currencies was $735.7 million and $1,498.6 million at December 31, 2006 and December 31, 2007. The notional principal of forward foreign exchange contracts to purchase euros with British pounds, Japanese yen, Australian dollars and Swedish Krona was 296.5 million (or approximately $433.4 million) at December 31, 2007. There were no other forward foreign exchange contracts outstanding at December 31, 2006 or December 31, 2007.

Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Legal Costs

Legal costs are expensed as incurred.

Advertising and Promotional Expenses

We expense advertising and promotional costs in the period in which they are incurred. For the years ended December 31, 2005, 2006 and 2007 promotional and advertising expenses totaled approximately $104.3 million, $188.4 million and $236.7 million.

Effect of Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on December 14, 2007, the FASB issued proposed FSP FAS 157-b which would delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This proposed FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for 2008, we will adopt SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in proposed FSP FAS 157-b. The partial adoption of SFAS 157 will not have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities- including an Amendment of FASB Statement No. 115* (SFAS 159), which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to fair value will be recognized in earnings. SFAS 159 also establishes additional disclosure requirements. SFAS 159 is effective for us beginning January 1, 2008. We are currently evaluating the potential impact of the adoption of SFAS 159 on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of SFAS 141R on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for us beginning January 1, 2009. We are currently evaluating the potential impact of the adoption of SFAS 160 on our consolidated financial position, results of operations or cash flows.

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Note 2. Net Income Per Share of Class A and Class B Common Stock

We compute net income per share of Class A and Class B common stock in accordance with SFAS No. 128, *Earnings per Share* (SFAS 128) using the two class method. Under the provisions of SFAS 128, basic net income per share is computed using the weighted average number of common shares outstanding during the period except that it does not include unvested common shares subject to repurchase or cancellation. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options, warrants, restricted shares, restricted stock units and unvested common shares subject to repurchase or cancellation. The dilutive effect of outstanding stock options, restricted shares, restricted stock units and warrants is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income per share of Class B common stock does not assume the conversion of those shares.

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock are identical, except with respect to voting. Further, there are a number of safeguards built into our Certificate of Incorporation, as well as Delaware law, which preclude our board of directors from declaring or paying unequal per share dividends on our Class A and Class B common stock. Specifically, Delaware law provides that amendments to our Certificate of Incorporation which would have the affect of adversely altering the rights, powers or preferences of a given class of stock (in this case the right of our Class A common stock to receive an equal dividend to any declared on our Class B common stock) must be approved by the class of stock adversely affected by the proposed amendment. In addition, our Certificate of Incorporation provides that before any such amendment may be put to a stockholder vote, it must be approved by the unanimous consent of our Board of Directors. As a result, and in accordance with EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128,* the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as we assume the conversion of Class B common stock in the computation of the diluted net income per share of Class A common stock, the undistributed earnings are equal to net income for that computation.

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

	Year Ended December 31, 2005 Class A	2005 Class B	2006 Class A	2006 Class B	2007 Class A	2007 Class B
Basic net income per share:						
Numerator:						
Allocation of undistributed earnings	$ 858,184	$ 607,213	$ 2,197,851	$ 879,595	$ 3,131,292	$ 1,072,428
Denominator:						
Weighted average common shares outstanding	165,513	117,109	216,589	86,681	232,131	79,421
Less: Weighted average unvested common shares subject to repurchase or cancellation	(3,970)	(2,808)	(1,333)	(534)	(616)	(130)
Number of shares used in per share computations	161,543	114,301	215,256	86,147	231,515	79,291
Basic net income per share	$ 5.31	$ 5.31	$ 10.21	$ 10.21	$ 13.53	$ 13.53
Diluted net income per share:						
Numerator:						
Allocation of undistributed earnings for basic computation	$ 858,184	$ 607,213	$ 2,197,851	$ 879,595	$ 3,131,292	$ 1,072,428
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	607,213		879,595		1,072,428	
Reallocation of undistributed earnings to Class B shares		(1,823)		(3,134)		(7,732)
Allocation of undistributed earnings	$ 1,465,397	$ 605,390	$ 3,077,446	$ 876,461	$ 4,203,720	$ 1,064,696
Denominator:						
Number of shares used in basic computation	161,543	114,301	215,256	86,147	231,515	79,291
Weighted average effect of dilutive securities						
Add:						
Conversion of Class B to Class A common shares outstanding	114,301		86,147		79,291	
Unvested common shares subject to repurchase or cancellation	6,778	2,808	1,867	534	746	130
Employee stock options	8,899	3,471	5,916	1,479	3,690	667
Restricted shares and restricted stock units	353		362		968	
Number of shares used in per share computations	291,874	120,580	309,548	88,160	316,210	80,088
Diluted net income per share	$ 5.02	$ 5.02	$ 9.94	$ 9.94	$ 13.29	$ 13.29

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The net income per share amounts are the same for Class A and Class B because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

Note 3. Cash, Cash Equivalents and Marketable Securities

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

	As of December 31, 2006	2007
Cash and cash equivalents:		
Cash	$ 1,579,702	$ 2,869,528
Cash equivalents:		
U.S. government agencies	323,900	110,272
Time deposits		500,000
Municipal securities	216,529	232,278
Money market mutual funds	1,424,540	2,369,515
Total cash and cash equivalents	3,544,671	6,081,593
Marketable securities:		
U.S. government notes	2,697,880	475,781
U.S. government agencies	2,839,430	2,120,972
Municipal securities	1,622,570	4,991,564
Time deposits	500,000	500,000
Auction rate preferred securities	39,363	48,703
Total marketable securities	7,699,243	8,137,020
Total cash, cash equivalents and marketable securities	$ 11,243,914	$ 14,218,613

The following table summarizes unrealized gains and losses related to our investments in marketable securities designated as available-for-sale (in thousands):

	As of December 31, 2006			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes	$ 2,704,753	$ 1,201	$ (8,074)	$ 2,697,880
U.S. government agencies	2,838,759	4,081	(3,410)	2,839,430
Municipal securities	1,627,428	197	(5,055)	1,622,570
Time deposits	500,000			500,000
Auction rate preferred securities	39,363			39,363
Total marketable securities	$ 7,710,303	$ 5,479	$ (16,539)	$ 7,699,243

	As of December 31, 2007			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government notes	$ 472,040	$ 3,745	$ (4)	$ 475,781
U.S. government agencies	2,102,710	18,306	(44)	2,120,972
Municipal securities	4,975,587	16,308	(331)	4,991,564
Time deposits	500,000			500,000
Auction rate preferred securities	48,703			48,703
Total marketable securities	$ 8,099,040	$ 38,359	$ (379)	$ 8,137,020

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Bank time deposits were held by institutions outside the U.S. in 2006 and 2007.

Gross unrealized gains and losses on cash equivalents were not material at December 31, 2006 and 2007. We did not experience any significant realized gains or losses on our investments in 2005. We recognized a net realized gain of $40.2 million on the sale of marketable securities in 2006 primarily as a result of realized gain of $54.9 million on the sale of one of our equity investments. In 2007, we recognized gross realized gains and losses of $81.7 million and $30.5 million on our marketable securities. There were no other-than-temporary impairments to our marketable securities in 2005, 2006 and 2007. Realized gains and losses are included in interest income and other, net in our accompanying Consolidated Statements of Income.

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

	As of December 31, 2007
Due within 1 year	$ 1,964,325
Due within 1 year through 5 years	3,359,472
Due within 5 years through 10 years	310,332
Due after 10 years	2,454,188
Total marketable debt securities	$ 8,088,317

In accordance with EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, the following table shows gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2006 and 2007, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands):

	As of December 31, 2006					
	Less than 12 Months		12 Months or Greater		Total	
Security Description	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. government notes	$ 893,264	$ (3,339)	$ 1,138,237	$ (4,735)	$ 2,031,501	$ (8,074)
U.S. government agencies	1,620,106	(2,603)	193,178	(807)	1,813,284	(3,410)
Municipal securities	676,089	(1,473)	248,953	(3,582)	925,042	(5,055)
Total	$ 3,189,459	$ (7,415)	$ 1,580,368	$ (9,124)	$ 4,769,827	$ (16,539)

	As of December 31, 2007					
	Less than 12 Months		12 Months or Greater		Total	
Security Description	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. government notes	$ 30,525	$ (4)	$	$	$ 30,525	$ (4)
U.S. government agencies	98,682	(41)	19,993	(3)	118,675	(44)
Municipal securities	270,708	(227)	54,832	(104)	325,540	(331)
Total	$ 399,915	$ (272)	$ 74,825	$ (107)	$ 474,740	$ (379)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Non-Marketable Equity Securities

In April 2006, we completed our $1.0 billion cash purchase of a five percent equity interest in a wholly-owned subsidiary of Time Warner, Inc. that owns all of the outstanding interests of America Online (AOL). Our investment in this non-marketable equity security is accounted for at historical cost (see Note 1). In March 2006, we entered into certain commercial arrangements with AOL. We believe that the terms of the investment and commercial agreements are at fair value, and as a result, they are accounted for in accordance with their contractual terms.

Further, we are obligated over a five year term to make up to $100 million of co-marketing payments (but not to exceed $20 million per year plus any amounts not spent in prior years) and issue up to $300 million of AdWords credits (but not to exceed $60 million per year plus any credits not redeemed in prior years). Co-marketing costs are expensed as incurred, and AdWords credits are accounted for as a reduction to revenues in the periods they are redeemed. At December 31, 2007, our remaining co-marketing and AdWords credits commitments were $79 million and $193 million, respectively.

We did not experience any material impairment charges on our non-marketable equity securities in the years presented.

Note 5. Interest Income and Other, Net

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

	Year Ended December 31,		
	2005	2006	2007
Interest income	$ 121,038	$ 412,063	$ 559,205
Interest expense	(776)	(257)	(1,203)
Other	4,137	49,238	31,578
Interest income and other, net	$ 124,399	$ 461,044	$ 589,580

Note 6. Property and Equipment

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

	As of December 31,	
	2006	2007
Information technology assets	$ 1,778,028	$ 2,734,916
Construction in process	850,164	1,364,651
Land and buildings	352,112	951,334
Leasehold improvements	273,262	416,884
Furniture and fixtures	36,028	52,127
Total	3,289,594	5,519,912
Less accumulated depreciation and amortization	894,355	1,480,651
Property and equipment, net	$ 2,395,239	$ 4,039,261

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Acquisitions

In September 2007, we completed the acquisition of Postini, Inc., a provider of information security and compliance solutions. This transaction was accounted for as a business combination. The purchase price was $545.7 million, paid in cash, including direct transaction costs of $1.0 million. The following table summarizes the allocation of the purchase price of Postini (in thousands):

Goodwill	$ 446,471
Customer relationships	104,310
Patents and developed technology	35,510
Tradenames and other	5,630
Net assets acquired	8,240
Deferred tax liabilities	(54,507)
Total	$ 545,654

Net assets acquired include involuntary termination benefits of $16.6 million that we expect to pay certain Postini employees. In addition, we are obligated to make cash payments of up to $44.8 million through 2011, contingent upon each employee s continued employment with us. These contingent payments will be expensed, when and if earned.

Goodwill is not deductible for tax purposes.

Customer relationships, patents and developed technology, and tradenames and other intangible assets have weighted-average useful lives of 6.8 years, 4.0 years and 2.6 years from the date of acquisition. These assets are not deductible for tax purposes.

Supplemental information on an unaudited pro forma basis, as if the Postini acquisition had been consummated at the beginning of each of the periods presented, is as follows (in millions, except per share amounts):

	Year Ended December 31,		
	2005	2006	2007
		(unaudited)	
Revenues	$ 6,180.5	$ 10,663.1	$ 16,651.1
Net income	$ 1,423.0	$ 3,032.0	$ 4,165.5
Net income per share of Class A and Class B common stock diluted	$ 4.88	$ 9.79	$ 13.17

The unaudited pro forma supplemental information is based on estimates and assumptions, which we believe are reasonable; it is not necessarily indicative of our consolidated financial position or results of income in future periods or the results that actually would have been realized had we been a combined company during the periods presented. The unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the acquisition, net of the related tax effects.

During the year ended December 31, 2007, we also completed seventeen other acquisitions. Three of these transactions were accounted for as asset purchases in accordance with EITF Issue No. 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business*, as the acquired companies were considered to be development stage enterprises. The remaining fourteen transactions were accounted for as business combinations. The total initial purchase price for these transactions was $281.6 million and was paid or

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

will be paid in cash. In addition, we are obligated to make additional cash payments of up to $72.4 million if certain performance targets are met through 2010. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower. A portion of these contingent payments will be accounted for as goodwill, and the remaining amounts will be expensed, when and if earned.

In addition, during the year ended December 31, 2007, we capitalized intangible assets of $5.2 million, paid in cash, related to patent purchases.

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

Goodwill	$ 201,067
Patents and developed technology	81,275
Customer relationships	13,230
Tradenames and other	6,200
Net assets acquired	6,181
Deferred tax liabilities	(25,947)
Purchased in-process research and development	4,790
Total	$ 286,796

Goodwill expected to be deductible for tax purposes is $5.1 million.

Patents and developed technology, customer relationships, and tradenames and other intangible assets have a weighted-average useful life of 3.7 years, 3.8 years and 3.3 years from the date of acquisition. The amount expected to be deductible for tax purposes is $7.6 million.

Purchased in-process research and development was expensed at the time of the acquisitions because technological feasibility had not been established and no future alternative uses existed. This amount was included in research and development expenses on the accompanying Consolidated Statements of Income.

In connection with certain acquisitions in the current and prior years, we are obligated to make additional cash payments if certain criteria are met. As of December 31, 2007, our remaining contingent obligations related to these acquisitions was approximately $800 million. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower.

Agreement and Plan of Merger with DoubleClick

In April 2007, we entered into an Agreement and Plan of Merger with DoubleClick to acquire all of the outstanding interests of DoubleClick, a privately held company, for $3.1 billion in cash, plus the cash and cash equivalents of DoubleClick, plus the aggregate exercise price for outstanding options and stock appreciation rights for DoubleClick common stock, as well as certain other adjustments, minus certain unpaid third party expenses incurred by DoubleClick in connection with this transaction and minus all indebtedness for borrowed money of DoubleClick.

In addition, unvested options and stock appreciation rights for DoubleClick common stock will be converted into options to purchase our common stock with economic terms similar to outstanding vested equity interests.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Although the transaction has been cleared by the Federal Trade Commission in the U.S., the completion of this transaction is subject to various customary conditions, including receiving antitrust clearance from the European Commission. We and DoubleClick have each agreed to take all actions necessary to obtain the requisite antitrust and other regulatory approvals.

Note 8. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the years ended December 31, 2006 and 2007 are as follows (in thousands):

Balance as of December 31, 2005	$ 194,900
Goodwill acquired	1,350,219
Balance as of December 31, 2006	1,545,119
Goodwill acquired	647,538
Goodwill adjustment	106,711
Balance as of December 31, 2007	$ 2,299,368

The goodwill adjustment of $106.7 million was primarily a result of contingent payments earned upon the achievement of certain performance targets and adjustments for goodwill amounts in connection with the YouTube acquisition.

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

	As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents and developed technology	$ 241,185	$ 95,927	$ 145,258
Customer relationships	60,636	16,359	44,277
Tradenames and other	183,721	26,415	157,306
Total	$ 485,542	$ 138,701	$ 346,841

	As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents and developed technology	$ 364,937	$ 179,102	$ 185,835
Customer relationships	171,876	37,738	134,138
Tradenames and other	196,392	69,769	126,623
Total	$ 733,205	$ 286,609	$ 446,596

In addition, during the year ended December 31, 2007, we capitalized intangible assets of $11.6 million, paid in cash, related to milestone payments for acquisitions completed prior to 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Patents and developed technology, customer relationships, and tradenames and other have weighted-average useful lives from the date of purchase of 3.4 years, 5.6 years and 4.2 years. Amortization expense of acquisition-related intangible assets for the years ended December 31, 2005, 2006 and 2007 were $37.0 million, $74.2 million and $158.2 million. Expected amortization expense for acquisition-related intangible assets on our December 31, 2007 Consolidated Balance Sheet for each of the next five years is as follows (in thousands):

2008	$ 163,565
2009	111,327
2010	80,244
2011	48,770
2012	15,556
Thereafter	27,134
	$ 446,596

Note 9. Commitments and Contingencies

Operating Leases

We have entered into various non-cancelable operating lease agreements for certain of our offices, land and data centers throughout the world with original lease periods expiring between 2008 and 2051. We are committed to pay a portion of the related operating expenses under certain of these lease agreements. These operating expenses are not included in the table below. Certain of these arrangements have free or escalating rent payment provisions. We recognize rent expense under such arrangements on a straight line basis.

At December 31, 2007, future minimum payments under non-cancelable operating leases, along with sublease income amounts, are as follows over each of the next five years and thereafter (in thousands):

	Operating Leases	Sub-lease Income	Net Operating Leases
2008	$ 169,574	$ 18,001	$ 151,573
2009	185,157	16,649	168,508
2010	174,194	14,038	160,156
2011	159,764	12,810	146,954
2012	149,767	7,991	141,776
Thereafter	1,446,525	11,853	1,434,672
Total minimum payments required	$ 2,284,981	$ 81,342	$ 2,203,639

Rent expense under operating leases was $41.2 million, $80.7 million and $127.9 million in 2005, 2006, and 2007. Sub-lease income was not material in any year presented.

The above minimum payments at December 31, 2007 under non-cancelable operating lease commitments and the above rent expense amounts do not include amounts related to certain non-cancelable service contracts for our data centers. The non-cancelable commitments under these service contracts at December 31, 2007 are included below under purchase obligations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Guaranteed Minimum Revenue Share Payments

In connection with our AdSense revenue share agreements, we are periodically required to make non-cancelable guaranteed minimum revenue share payments to a small number of our Google Network members over the term of the respective contracts. These guaranteed payments can vary based on our Google Network members achieving defined performance terms, such as number of advertisements displayed or search queries. In some cases, certain guaranteed amounts will be adjusted downward if our Google Network members do not meet their performance terms and, in some cases, these amounts will be adjusted upward if they exceed their performance terms. In all of these AdSense agreements, if a Google Network member were unable to perform under the contract, such as being unable to provide search queries, as defined under the terms of that agreement, then we would not be obligated to make any non-cancelable guaranteed minimum revenue share payments to that member. At December 31, 2007, our aggregate outstanding non-cancelable guaranteed minimum revenue share commitments totaled $1,746.4 million through 2012 compared to $1,165.6 million at December 31, 2006.

Purchase Obligations

We had $734.0 million of other non-cancelable contractual obligations and $1,375.8 million of open purchase orders for which we had not received the related services or goods at December 31, 2007. We have the right to cancel these open purchase orders prior to the date of delivery. The majority of these purchase obligations are related to data center operations and facility build-outs. These non-cancelable contractual obligations and open purchase orders amounts do not include payments we may be obligated to make based upon vendors achieving certain milestones.

Letters of Credit

At December 31, 2007 and associated with several leased facilities, we had unused letters of credit for $20.4 million. At December 31, 2007, we were in compliance with our financial covenants under the letters of credit.

Indemnifications

In the normal course of business to facilitate transactions of our services and products, we indemnify certain parties, including advertisers, Google Network members and lessors, with respect to certain matters. We have agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our officers and directors, and our bylaws contain similar indemnification obligations to our agents.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these agreements have not had a material impact on our operating results, financial position, or cash flows.

Legal Matters

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

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

We are also a party to other litigation and subject to claims incident to the ordinary course of business, including intellectual property claims (in addition to the trademark and copyright matters noted above), labor and employment claims, breach of contract claims, tax and other matters.

Although the results of litigation and claims cannot be predicted with certainty, we believe that the final outcome of the matters discussed above will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows.

Income Taxes

We are currently under audit by the Internal Revenue Service and various other tax authorities. We have reserved for potential adjustments to our provision for income taxes that may result from examinations by, or any negotiated agreements with, these tax authorities, and we believe that the final outcome of these examinations or agreements will not have a material affect on our results of operations. If events occur which indicate payment of these amounts is unnecessary, the reversal of the liabilities would result in the recognition of tax benefits in the period we determine the liabilities are no longer necessary. If our estimates of the federal, state, and foreign income tax liabilities are less than the ultimate assessment, a further charge to expense would result.

Upon adoption of FIN 48 on January 1, 2007, we decreased current taxes payable by $219.4 million and increased long-term taxes payable by the same amount as FIN 48 specifies that tax positions for which the timing of the ultimate resolution is uncertain should be recognized as long-term liabilities. We also recognized additional long-term taxes payable of $181.0 million in the year ended December 31, 2007. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes.

Note 10. Google Foundation

The Google Foundation (the Foundation), a private foundation, was formed in the third quarter of 2004. The Foundation s mission is to fund and support philanthropic programs focused on poverty and the environment. In the fourth quarter of 2005, we funded the Foundation with non-recourse, non-refundable cash donation of $90.0 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Board of Directors of the Foundation currently consists of four members, two of whom are directors and executive officers of Google and one of whom is a vice president of Google. The fourth member is the executive director of the Foundation.

Since the Foundation s inception, we have provided at no charge certain resources to the Foundation such as office space.

Note 11. Stockholders Equity

Convertible Preferred Stock

Our Board of Directors has authorized 100,000,000 shares of convertible preferred stock, $0.001 par value, issuable in series. At December 31, 2007 and 2006, there were no shares issued or outstanding.

Class A and Class B Common Stock

Our Board of Directors has authorized two classes of common stock, Class A and Class B. At December 31, 2007, there were 6,000,000,000 and 3,000,000,000 shares authorized and there were 236,432,822 and 76,844,348 shares legally outstanding of Class A and Class B common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to 10 votes per share. Shares of Class B common stock may be converted at any time at the option of the stockholder and automatically convert upon sale or transfer to Class A common stock. We refer to Class A and Class B common stock as common stock throughout the notes to these financial statements, unless otherwise noted.

At December 31, 2006 and December 31, 2007 there were 20,410,337 and 14,553,423 shares of common stock reserved for future issuance.

Stock Plans

We maintain the 1998 Stock Plan, the 2000 Stock Plan, the 2003 Stock Plan, the 2003 Stock Plan (No. 2), the 2003 Stock Plan (No. 3), the 2004 Stock Plan and plans assumed through acquisitions, all of which are collectively referred to as the Stock Plans. Under our Stock Plans, incentive and nonqualified stock options or rights to purchase common stock may be granted to eligible participants. Options are generally granted for a term of 10 years. Options granted under the Stock Plans generally vest 25% after the first year of service and ratably each month over the remaining 36 month period contingent upon employment with us on the date of vest. Options granted under Stock Plans other than the 2004 Stock Plan may be exercised prior to vesting.

Under the stock plans, we have also issued RSUs and restricted shares. An RSU award is an agreement to issue shares of our stock at the time of vest. RSUs issued to new employees vest over four years with a yearly cliff contingent upon employment with us on the dates of vest. These RSUs vest from zero to 37.5 percent of the grant amount at the end of each of the four years from date of hire based on the employee s performance. RSUs under the Founders Award programs are issued to individuals on teams that have made extraordinary contributions to Google. These awards vest quarterly over four years contingent upon employment with us on the dates of vest.

We estimated the fair value of each option award on the date of grant using the BSM option pricing model. Our assumptions about stock-price volatility have been based exclusively on the implied volatilities of publicly

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

traded options to buy our stock with contractual terms closest to the expected life of options granted to our employees applying the guidance provided by Staff Accounting Bulletin No. 107, *Share-Based Payment*. Through the third quarter of 2007, our assumptions about the expected term have been based on that of companies that have option vesting and contractual terms, expected stock volatility and employee demographics and physical locations that are similar to ours because we had limited relevant historical information to support the expected sale and exercise behavior of our employees who had been granted options recently. Commencing in the fourth quarter of 2007, we began to estimate the expected term based upon the historical behavior of our employees. The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value of share-based payment awards was estimated using the BSM option pricing model with following assumptions and weighted average fair values:

	Year Ended December 31,		
	2005	**2006**	**2007**
Risk-free interest rate	3.86%	4.70%	4.37%
Expected volatility	36%	34%	34%
Expected life (in years)	3.1	3.6	5.1
Dividend yield			
Weighted-average estimated fair value of options granted during the year	$ 78.58	$ 158.59	$ 213.56

The following table summarizes the activity for our options for the twelve months ended December 31, 2007:

	Options Outstanding			
	Number of Shares	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (in years)**	**Aggregate Intrinsic Value (in millions)(1)**
Balance at December 31, 2006	13,424,872	$ 205.58		
Options granted	3,408,101	$ 562.95		
Exercised/vested	(3,572,930)	$ 51.86		
Canceled/forfeited	(367,157)	$ 264.11		
Balance at December 31, 2007	12,892,886	$ 333.62	7.5	$ 4,483.92
Vested and exercisable as of December 31, 2007	4,405,716	$ 211.10	7.0	$ 2,116.43
Vested and exercisable as of December 31, 2007 and expected to vest thereafter(2)	12,001,757	$ 330.70	7.5	$ 4,330.04

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of $691.48 of our common stock on December 31, 2007.

(2) Options expected to vest reflect an estimated forfeiture rate.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes additional information regarding outstanding and exercisable options at December 31, 2007:

	Options Outstanding					Options Exercisable		Options Exercisable and Vested	
Range of Exercise Prices	Total Number of Shares	Unvested Options Granted and Exercised Subsequent to March 21, 2002	Number of Shares	Weighted-Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$0.30 $85.00	2,639,312	360,679	2,278,633	5.7	$ 18.07	2,230,265	$ 17.84	1,349,487	$ 15.37
$117.84 $198.41	1,678,669		1,678,669	5.9	$ 176.42	933,713	$ 175.27	933,367	$ 175.27
$205.96 $298.91	1,391,439		1,391,439	6.5	$ 274.52	700,523	$ 274.30	700,177	$ 274.30
$300.97 $399.00	1,789,518		1,789,518	7.1	$ 329.55	813,173	$ 326.68	811,819	$ 326.64
$401.78 $499.07	1,469,211		1,469,211	8.5	$ 449.90	284,533	$ 431.24	283,671	$ 431.24
$500.00 $594.05	3,721,507		3,721,507	9.4	$ 556.92	328,015	$ 508.02	326,881	$ 508.02
$625.39-$699.35	150,577		150,577	9.9	$ 663.13	78	$ 664.55	78	$ 664.55
$707.00-$732.94	52,653		52,653	9.9	$ 718.16	36	$ 707.00	36	$ 707.00
$0.30 $732.94	12,892,886	360,679	12,532,207	7.5	$ 333.56	5,290,336	$ 179.70	4,405,516	$ 211.10

Options outstanding at December 31, 2006 and 2007 in the above tables include 1,296,155 and 360,679 of options granted and exercised subsequent to March 21, 2002 that are unvested at December 31, 2006 and 2007, in accordance with EITF 00-23. However, the computations of the weighted-average exercise prices, weighted average remaining contractual term and aggregate intrinsic value for all stock options outstanding and those exercisable do not consider these unvested shares. Further, the above tables include 924,399 warrants held by financial institutions that were options purchased from employees under our TSO program.

The total grant date fair value of stock options vested (including the related incremental fair value resulting from the adoption of our TSO program see discussion below) during 2005, 2006 and 2007 was $287.5 million, $392.9 million and $635.1 million. The aggregate intrinsic value of all options exercised during 2005, 2006 and 2007 was $1,785.3 million, $1,904.0 million and $1,279.0 million these amounts do not include the aggregate sales price of options sold under the TSO program (see below).

In April 2007, we launched our TSO program. Under the TSO program, certain employees are able to sell vested options granted after our initial public offering under our 2004 Stock Plan to selected financial institutions in an online auction. All employees may participate in the program other than our executive management group and those who reside in countries where, due to local legal or tax implications, it would not be beneficial to employees or the TSO program would be impractical. At the time of sale, the vested option is automatically amended to create a warrant that is exercisable by the financial institution within two years from the date of issuance. All eligible outstanding options were modified in the second quarter of 2007 to allow them to be sold under the TSO program and, as a result, we incurred a modification charge of $95 million during 2007 related to vested options and 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. The modification charge is equal to the difference between the values of those modified stock options on the date of modification and their values immediately prior to modification in accordance with SFAS 123R. Further, to the extent the forfeiture rate is different from what we have anticipated, the modification charge related to the unvested awards will be different from our expectations. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2007, the number of shares underlying TSOs sold to selected financial institutions under the TSO program was 924,399 at a total value of $305.0 million, or an average $329.92 per share, and an average premium of $31.43 per share. The premium is calculated as the difference between (a) the sale price of the TSO and (b) the intrinsic value of the TSO, which we define as the excess, if any, of the price of our Class A common stock at the time of the sale over the exercise price of the TSO. At December 31, 2007, the number of shares underlying TSOs held by financial institutions was 924,399 and the number of options eligible for participation under the TSO program was approximately 8.7 million.

As of December 31, 2007, there was $1,165.1 million of unrecognized compensation cost related to outstanding employee stock options, net of forecasted forfeitures. This amount is expected to be recognized over a weighted average period of 2.97 years. To the extent the forfeiture rate is different than what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

The following table summarizes the activity for our unvested restricted stock units and restricted shares for the twelve months ended December 31, 2007:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at December 31, 2006	1,771,037	$ 369.54
Granted	1,870,558	$ 618.61
Vested	(570,863)	$ 362.81
Forfeited	(80,510)	$ 396.85
Unvested at December 31, 2007	2,990,222	$ 526.92
Expected to vest at December 31, 2007	2,795,858	$ 526.92

As of December 31, 2007, there was $1,332.6 million of unrecognized compensation cost related to employee unvested restricted stock units and restricted shares, net of forecasted forfeitures. This amount is expected to be recognized over a weighted average period of 3.42 years. To the extent the actual forfeiture rate is different than what we have anticipated; stock-based compensation related to these awards will be different from our expectations.

At December 31, 2007, there were 2,063 unvested restricted stock units held by a non-employee with a 30 month remaining vesting period.

Warrants to Purchase Class A Common Stock

We issued warrants to purchase 15,904 shares of Class A common stock in connection with our YouTube acquisition. The warrants have an exercise price of $23.28 and a nine month remaining vesting period at December 31, 2007.

Note 12. 401(k) Plan

We have a 401(k) Savings Plan (the 401(k) Plan) that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, participating employees may elect to contribute up to 60% of their eligible compensation, subject to certain limitations. We match employee contributions up to $7,750 per year. Employee and our contributions are fully vested when contributed. We contributed approximately $8.4 million, $14.3 million and $51.1 million during 2005, 2006 and 2007, respectively.

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Note 13. Income Taxes

Income before income taxes included income from foreign operations of approximately $590.8 million, $1,318.4 million and $2,466.9 million for 2005, 2006 and 2007.

The provision for income taxes consisted of the following (in thousands):

	Year Ended December 31,		
	2005	2006	2007
Current:			
Federal	$ 506,322	$ 812,280	$ 1,288,310
State	141,101	191,266	294,935
Foreign	7,694	28,516	51,227
Total	655,117	1,032,062	1,634,472
Deferred:			
Federal	14,273	(80,073)	(135,047)
State	6,890	(18,395)	(29,165)
Total	21,163	(98,468)	(164,212)
Provision for income taxes	$ 676,280	$ 933,594	$ 1,470,260

The reconciliation of federal statutory income tax rate to our effective income tax rate is as follows (in thousands):

	Year ended December 31,		
	2005	2006	2007
Expected provision at federal statutory rate (35%)	$ 749,588	$ 1,403,864	$ 1,985,893
State taxes, net of federal benefit	96,194	112,366	172,750
Stock-based compensation expense	25,058	26,878	123,869
Disqualifying dispositions of incentive stock options	(46,092)	(6,128)	
Foreign rate differential	(134,185)	(505,729)	(705,400)
Federal research credit	(12,287)	(77,859)	(81,469)
Tax exempt interest	(20,177)	(31,583)	(50,662)
Other permanent differences	18,181	11,785	25,279
Provision for income taxes	$ 676,280	$ 933,594	$ 1,470,260

We provide U.S. income taxes on the earnings of foreign subsidiaries unless the subsidiaries earnings are considered permanently reinvested outside the U.S. To the extent that the foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax liability may be reduced by any foreign income taxes paid on these earnings. As of December 31, 2007, the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately $3,900.6 million. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable.

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred Tax Assets

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financing reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows (in thousands):

	As of December 31, 2006	As of December 31, 2007
Deferred tax assets:		
Stock-based compensation	$ 40,772	$ 118,297
State taxes		86,256
Depreciation	26,009	53,900
Vacation accruals	11,256	18,868
Deferred Rent	9,565	17,498
Accruals and reserves not currently deductible	6,867	9,824
Unrealized losses on investments and other	1,996	
Other	4,242	14,674
Total deferred tax assets	100,707	319,317
Deferred tax liabilities:		
Identified intangibles	(107,781)	(127,700)
Undistributed earnings of foreign subsidiaries		(55,329)
Unrealized gains on investments and other		(30,187)
Other	(3,634)	(4,344)
Total deferred tax liabilities	(111,415)	(217,560)
Net deferred tax assets (liabilities)	$ (10,708)	$ 101,757

As of December 31, 2007, our federal net operating loss carryforwards for income tax purposes were approximately $22.1 million. If not utilized, the federal net operating loss carryforwards will begin to expire in 2024. The net operating loss carryforwards are subject to various limitations under Section 382 of the Internal Revenue Code.

Uncertain Tax Positions

Effective January 1, 2007, we adopted the provisions of FIN 48. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109 and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Upon adoption of FIN 48, our policy to include interest and penalties related to gross unrecognized tax benefits within our provision for income taxes did not change. The adjustment to retained earnings upon adoption to FIN 48 on January 1, 2007 was $2.3 million.

The following table summarizes the activity related to our gross unrecognized tax benefits from January 1, 2007 to December 31, 2007 (in thousands):

Balance as of January 1, 2007	$ 243,588

Increases related to prior year tax positions	29,854
Decreases related to prior year tax positions	(18,997)
Increases related to current year tax positions	132,742
Decreases related to settlements with taxing authorities	
Decreases related to lapsing of statute of limitations	
Balance as of December 31, 2007	$ 387,187

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Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were $195.7 million and $283.5 million as of January 1, 2007 and December 31, 2007

As of December 31, 2007, we had accrued $14 million for payment of interest. Interest included in our provision for income taxes was not material in all the periods presented. We have not accrued any penalties related to our uncertain tax positions as we believe that it is more likely than not that there will not be any assessment of penalties.

We and our subsidiaries are routinely examined by various taxing authorities. Although we file U.S. federal, U.S. state, and foreign tax returns, our two major tax jurisdictions are the U.S. and Ireland. During the fourth quarter ended December 31, 2007, IRS completed its examination of our 2003 and 2004 tax years. We have filed an appeal with the IRS for certain issues related to this audit, but we believe we have adequately provided for these items and any adverse results would have an immaterial impact on our unrecognized tax benefit balance within the next twelve months. The IRS will commence its examination of our 2005 and 2006 tax years in early 2008. We do not expect the examination to be completed within the next twelve months, therefore we do not anticipate any significant impact to our unrecognized tax benefit balance in 2008, related to 2005 and 2006 tax years.

Our 2003 through 2007 tax years remain subject to examination by the IRS for U.S. federal tax purposes, and our 2002 through 2007 tax years remain subject to examination by the appropriate governmental agencies for Irish tax purposes. There are various other on-going audits in various other jurisdictions that are not material to our financial statements.

Note 14. Information about Geographic Areas

Our chief operating decision-makers (i.e., chief executive officer, certain of his direct reports and our founders) review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable by our chief operating decision-makers, or anyone else, for operations, operating results and planning for levels or components below the consolidated unit level. Accordingly, we consider ourselves to be in a single reporting segment and operating unit structure.

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

	Year Ended December 31,		
	2005	**2006**	**2007**
Revenues:			
United States	$ 3,756,886	$ 6,030,140	$ 8,698,021
United Kingdom	878,110	1,603,842	2,530,916
Rest of the world	1,503,564	2,970,935	5,365,049
Total revenues	$ 6,138,560	$ 10,604,917	$ 16,593,986

	As of December 31,		
	2005	**2006**	**2007**
Long-lived assets:			
United States	$ 1,080,236	$ 5,070,694	$ 7,334,877
Rest of the world	190,506	362,810	711,791
Total long-lived assets	$ 1,270,742	$ 5,433,504	$ 8,046,668

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management s evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2007, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

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

There were no changes in our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Management s report on internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2007. Management reviewed the results of their assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item regarding our directors and corporate governance matters is included under the captions Corporate Governance and Board of Directors Matters and Proposals to be Voted On Proposal Number 1 Election of Directors in Google s Proxy Statement for its 2008 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2007 (the 2008 Proxy Statement) and is incorporated herein by reference. The information required by this item regarding delinquent filers pursuant to Item 405 of Regulation S-K is included under the heading Section 16(a) Beneficial Ownership Reporting Compliance in the 2008 Proxy Statement and is incorporated herein by reference.

The information required by this item concerning our executive officers is set forth under the heading Executive Officers of the Registrant in Part I of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is included under the captions Director Compensation and Executive Compensation in the 2008 Proxy Statement and incorporate herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is included under the captions Common Stock Ownership of Certain Beneficial Owners and Management and Executive Compensation Equity Compensation Plan Information in the 2008 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is included under the caption Certain Relationships and Related Party Transactions in the 2008 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is included under the caption Independent Public Accountants in the 2008 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) We have filed the following documents as part of this Form 10-K:

1. Consolidated Financial Statements

2. Financial Statement Schedule

Schedule II: Valuation and Qualifying Accounts

All other schedules have been omitted because they are not required, not applicable, or the required information is otherwise included.

Schedule II: Valuation and Qualifying Accounts

Allowance for Doubtful Accounts and Sales Credits	Balance at Beginning of Year	Charged to Expenses/ Against Revenue	Write-Offs Net of Recoveries	Balance at End of Year
	(In thousands)			
Year ended December 31, 2005	$ 3,962	$ 18,264	$ (7,374)	$ 14,852
Year ended December 31, 2006	$ 14,852	$ 9,899	$ (7,837)	$ 16,914
Year ended December 31, 2007	$ 16,914	$ 46,001	$ (30,028)	$ 32,887

Note: Additions to the allowance for doubtful accounts are charged to expense. Additions to the allowance for sales credits are charged against revenues.

3. Exhibits.

See the Exhibit Index immediately following the signature page of this Annual Report of Form 10-K

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 15, 2008.

GOOGLE INC.

By: /s/ Eric E. Schmidt
Eric E. Schmidt
Chairman of the Board of Directors and

Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Eric E. Schmidt and George Reyes, jointly and severally, his or her attorney-in-fact, with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Eric E. Schmidt **Eric E. Schmidt**	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	February 15, 2008
/s/ George Reyes **George Reyes**	Chief Financial Officer (Principal Financial and Accounting Officer)	February 15, 2008
/s/ Sergey Brin **Sergey Brin**	President of Technology, Assistant Secretary and Director	February 15, 2008
/s/ Larry Page **Larry Page**	President of Products, Assistant Secretary and Director	February 15, 2008
/s/ L. John Doerr **L. John Doerr**	Director	February 15, 2008
/s/ K. Ram Shriram **K. Ram Shriram**	Director	February 15, 2008
/s/ John L. Hennessy	Director	February 15, 2008

John L. Hennessy		
/s/ ARTHUR D. LEVINSON	Director	February 15, 2008
Arthur D. Levinson		
/s/ PAUL S. OTELLINI	Director	February 15, 2008
Paul S. Otellini		
/s/ SHIRLEY TILGHMAN	Director	February 15, 2008
Shirley Tilghman		
/s/ ANN MATHER	Director	February 15, 2008
Ann Mather		

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Exhibit Number	Description	Incorporated by reference herein Form	Date
1.01	Form of Distribution Agreement dated April 20, 2007 among Google Inc., Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC and UBS Securities LLC (the Distribution Agreement)	Current Report on Form 8-K (File No. 000-50726)	April 23, 2007
1.01.1	Amendment No. 1 to the Distribution Agreement among Google Inc. and J.P. Morgan Securities Inc. entered into as of July 20, 2007	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2007
1.02	Form of Bidding Rules Agreement dated April 20, 2007 among Google Inc., Morgan Stanley & Co. Incorporated, as Auction Manager and Bidder, Citigroup Global Markets Inc. as Warrant Agent and Bidder and Credit Suisse Securities (USA) LLC and UBS Securities LLC, as Bidders (the Bidding Rules Agreement)	Current Report on Form 8-K (File No. 000-50726)	April 23, 2007
1.02.1	Amendment No. 1 to the Bidding Rules Agreement among Google Inc. and J.P. Morgan Securities Inc., as Bidder entered into as of July 20, 2007	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2007
2.1	Agreement and Plan of Merger by and among Google Inc., Whopper Acquisition Corp. and Click Holding Corp., dated as of April 13, 2007	Current Report on Form 8-K (File No. 000-50726)	April 19, 2007
3.01	Third Amended and Restated Certificate of Incorporation of Registrant as filed August 24, 2004	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 9, 2004
3.02	Amended and Restated Bylaws of Registrant, effective as of August 24, 2004	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 9, 2004
4.01	Investor Rights Agreement dated May 31, 2002	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
4.01.1	Amendment to Investor Rights Agreement dated August 17, 2004	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 18, 2004
4.02	Specimen Class A Common Stock certificate	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 18, 2004
4.03	Specimen Class B Common Stock certificate	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 18, 2004
4.04	Registration Rights Agreement dated October 9, 2006 (with stockholders of YouTube, Inc.)	Registration Statement on Form S-3 (File No. 333-140498)	February 7, 2007

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Exhibit Number		Description	Incorporated by reference herein Form	Date
4.05		Form of Warrant Agreement dated April 20, 2007 among Google Inc., Citigroup Global Markets Inc. as Warrant Agent, and Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., Credit Suisse Management LLC, and UBS AG, London Branch, as Warrantholders (the Warrant Agreement)	Current Report on Form 8-K (File No. 000-50726)	April 23, 2007
4.05.1		Amendment No. 1 to the Warrant Agreement among Google Inc. and J.P. Morgan Securities Inc., as Warrantholder entered into as of July 20, 2007	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2007
10.01		Form of Indemnification Agreement entered into between Registrant, its affiliates and its directors and officers	Registration Statement on Form S-l, as amended (File No. 333-114984)	July 12, 2004
10.02	♥	1998 Stock Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.02.1	♥	1998 Stock Plan Form of stock option agreement	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
10.03	♥	Applied Semantics, Inc. 1999 Stock Option/Stock Issuance Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.04	♥	2000 Stock Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.04.1	♥	2000 Stock Plan Form of stock option agreement	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
10.05	♥	2003 Stock Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	May 10, 2007
10.05.1	♥	2003 Stock Plan Form of stock option agreement	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
10.06	♥	2003 Stock Plan (No. 2), as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	May 10, 2007
10.06.1	♥	2003 Stock Plan (No.2) Form of stock option agreement	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
10.07	♥	2003 Stock Plan (No.3), as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	May 10, 2007
10.07.1	♥	2003 Stock Plan (No.3) Form of stock option agreement	Registration Statement on Form S-l, as amended (File No. 333-114984)	April 29, 2004
10.08	♥	Google Inc. 2004 Stock Plan, as amended	Current Report on Form 8-K (File No. 000-50726)	May 15, 2007
10.08.1	♥	2004 Stock Plan Form of stock option agreement	Annual Report on Form 10-K (File No. 000-50726)	March 30, 2005
10.08.2	♥	2004 Stock Plan Form of restricted stock unit agreement	Annual Report on Form 10-K (File No. 000-50726)	March 30, 2005

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Exhibit Number		Description	Incorporated by reference herein Form	Date
10.08.3	♥	2004 Stock Plan Amendment to stock option agreements	Registration Statement on Form S-3 (File No. 333-142243)	April 20, 2007
10.08.4	♥	2004 Stock Plan Form of stock option agreement (TSO Program)	Registration Statement on Form S-3 (File No. 333-142243)	April 20, 2007
10.09	♥	Ignite Logic, Inc. 2003 Equity Incentive Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.10	♥	Lifescape Solutions, Inc. 2001 Stock Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.11	♥	Keyhole, Inc. 2000 Equity Incentive Plan, as amended	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.12	♥	Picasa, Inc. Employee Bonus Plan	Registration Statement on Form S-8 (File No. 333-119378)	September 29, 2004
10.13	♥	YouTube, Inc. 2005 Stock Plan	Registration Statement on Form S-8 (File No. 333-138848)	November 20, 2006
10.14		Purchase and Sale Agreement dated June 9, 2006 by and among WXIII/Amphitheatre Realty, L.L.C., WXIII/Crittenden Realty A/B, L.L.C., WXIII/Crittenden Realty C, L.L.C., and WXIII/Crittenden Realty D, L.L.C. and Google Inc.	Quarterly Report on Form 10-Q (File No. 000-50726)	August 9, 2006
10.15		Amended and Restated License Agreement dated October 13, 2003 by and between The Board of Trustees of the Leland Stanford Junior University and Registrant	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 16, 2004
10.15.1		License Agreement dated July 2, 2001 by and between The Board of Trustees of the Leland Stanford Junior University and Registrant	Registration Statement on Form S-l, as amended (File No. 333-114984)	August 18, 2004
10.16	♥	Google Senior Executive Bonus Plan	Current Report on Form 8-K (File No. 000-50726)	March 28, 2007
10.17	♥	Letter agreement between the Company and Shirley Tilghman dated August 16, 2005.	Current Report on Form 8-K (File No. 000-50726)	October 6, 2005
10.18		Amended and Restated Limited Liability Company Agreement of AOL Holdings LLC dated March 24, 2006	Annual Report on Form 10-K (File No. 000-50726)	March 16, 2006
10.19		Contribution Agreement among Time Warner Inc., Google Inc. and America Online, Inc. dated March 24, 2006	Annual Report on Form 10-K (File No. 000-50726)	March 16, 2006

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Exhibit Number		Description	Incorporated by reference herein Form	Date
10.20		Google Registration Rights Agreement among Time Warner Inc., AOL Holdings LLC and Google Inc. dated March 24, 2006	Annual Report on Form 10-K (File No. 000-50726)	March 16, 2006
10.21		Agreement and Plan of Merger, dated as of January 16, 2006, by and among Google Inc., Enumclaw, Inc., dMarc Broadcasting, Inc. and certain other parties thereto	Annual Report on Form 10-K (File No. 000-50726)	March 1, 2007
10.22		Amended and Restated Agreement and Plan of Merger by and among Google Inc., Snowmass Holdings Inc., YouTube, Inc. and certain other parties dated as of November 3, 2006, as amended	Quarterly Report on Form 10-Q/A (File No. 000-50726)	May 10, 2007
21.01	*	List of subsidiaries of Registrant		
23.01	*	Consent of Independent Registered Public Accounting Firm		
24.01	*	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)		
31.01	*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		
31.02	*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		
32.01		Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		

♥ Indicates management compensatory plan, contract or arrangement.
Confidential treatment has been requested for portions of this exhibit.
* Filed herewith.
Furnished herewith.