

Google Inc

S&P Recommendation **HOLD** ★★☆☆☆

Price
\$525.51 (as of Sep 23, 2011)

12-Mo. Target Price
\$500.00

Investment Style
Large-Cap Growth

UPDATE: PLEASE SEE THE ANALYST'S LATEST RESEARCH NOTE IN THE COMPANY NEWS SECTION

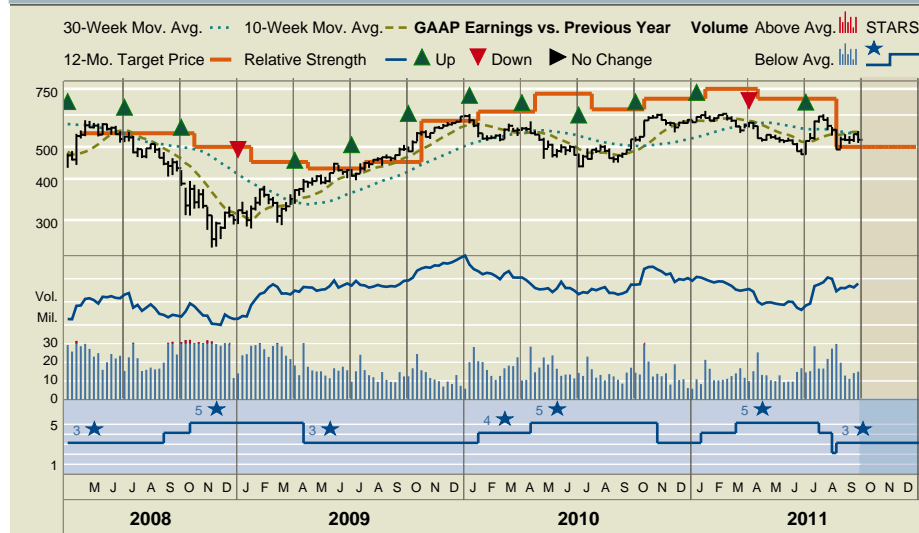
GICS Sector Information Technology
Sub-Industry Internet Software & Services

Summary Google is the world's largest Internet company, specializing in search and advertising. In August 2011, it announced the proposed acquisition of Motorola Mobility for \$12.5 billion.

Key Stock Statistics (Source S&P, Vickers, company reports)

52-Wk Range	\$642.96– 473.02	S&P Oper. EPS 2011 E	31.28	Market Capitalization(B)	\$133.595	Beta	1.13
Trailing 12-Month EPS	\$27.72	S&P Oper. EPS 2012E	38.41	Yield (%)	Nil	S&P 3-Yr. Proj. EPS CAGR(%)	19
Trailing 12-Month P/E	19.0	P/E on S&P Oper. EPS 2011 E	16.8	Dividend Rate/Share	Nil	S&P Credit Rating	AA-
\$10K Invested 5 Yrs Ago	\$13,015	Common Shares Outstg. (M)	322.9	Institutional Ownership (%)	78		

Price Performance



Options: ASE, CBOE, P, Ph

Analysis prepared by Equity Analyst **Scott Kessler** on Aug 22, 2011, when the stock traded at **\$498.36**.

Highlights

- ▶ We believe gross revenues will rise 28% in 2011 and 23% in 2012, due to secular growth in on-line advertising, international expansion, and increasing traction for display advertising. We think uncertain economies pose difficulties.
- ▶ We expect pro forma operating margins to dip in 2011, reflecting aggressive spending on growth initiatives. We think the magnitude of expense growth will moderate and contribute to margin improvement in 2012. Revenues have been aided by weakness in the U.S. dollar, but we believe a hedging program has offset the impact on profits. We see continuing spending related to government inquiries/investigations.
- ▶ In August 2011, GOOG announced the proposed acquisition of Motorola Mobility Holdings (MMI 38, Hold) for \$12.5 billion in cash. We expect this pending deal to ultimately be approved by regulators around mid-2012. We believe the pursuit of MMI was motivated by GOOG's interest in fortifying its patent portfolio, to help protect its key Android franchise. We also think GOOG will keep MMI's production operations centered on smartphones and set-top boxes.

Investment Rationale/Risk

- ▶ We have been constructive on GOOG's efforts to expand, especially in display advertising, certain mobile contexts, and social media. However, we are skeptical about the proposed purchase of MMI, and believe it will not necessarily protect Android from IP-related attacks, and will weaken GOOG's growth, margins and balance sheet. Adding MMI could hurt Android, as OEM partners could pursue alternatives, with its purveyor now positioned as a competitor.
- ▶ Risks to our opinion and target price include possible market share losses, new offerings succeeding less than we expect, adverse legal/regulatory developments, and questions/issues related to MMI.
- ▶ Our DCF model assumes a WACC of 12.4%, five-year average annual FCF growth of 18%, and a perpetuity growth rate of 3%, and yields an intrinsic value of about \$500. Comparing GOOG to certain S&P 500 Internet companies, based on P/E and P/E-to-growth multiples, and allowing for a discount related to the pending MMI deal, also results in a value around \$500, which is our 12-month target price.

Qualitative Risk Assessment

LOW **MEDIUM** **HIGH**

Our risk assessment reflects what we see as relatively low barriers to entry in the Internet segment, significant competition, substantial and increasing investment and related new offerings, considerable ongoing legal and regulatory matters, and potential issues related to the pending purchase of Motorola Mobility.

Quantitative Evaluations

S&P Quality Ranking **NR**
D C B- B B+ A- A A+

Relative Strength Rank **STRONG**
73
LOWEST = 1 HIGHEST = 99

Revenue/Earnings Data

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2011	8,575	9,026	--	--	--
2010	6,775	6,820	7,286	8,440	29,321
2009	5,509	5,523	5,945	6,674	23,651
2008	5,186	5,367	5,541	5,701	21,796
2007	3,664	3,872	4,231	4,827	16,594
2006	2,254	2,456	2,690	3,206	10,605

Earnings Per Share (\$)	2011	2010	2009	2008	2007	2006
	5.51	7.68	7.73	7.81	7.81	7.81
	6.06	5.71	6.72	6.72	6.72	6.72
	4.49	4.66	5.13	6.13	6.13	6.13
	4.12	3.92	4.06	1.21	13.31	13.31
	3.18	2.93	3.38	3.79	13.29	13.29
	1.95	2.33	2.36	3.29	9.94	9.94

Fiscal year ended Dec. 31. Next earnings report expected: Mid October. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

Dividend Data

No cash dividends have been paid.

Google Inc

Business Summary August 22, 2011

CORPORATE OVERVIEW. Google is a global technology company whose stated mission is to organize the world's information and make it universally accessible and useful. GOOG has amassed and maintains what we believe is the Internet's largest index of information (consisting of billions of items, including Web pages, images and videos), and makes most of it freely accessible and usable to anyone with online access. GOOG's websites are a leading Internet destination, and its brand is one of the most recognized in the world. International sources contributed 54% of revenues in the second quarter of 2011 and 52% of revenues in the prior-year period.

GOOG's advertising program, called AdWords, enables advertisers to present online ads when users are searching for related information. Advertisers employ GOOG's tools to create text-based ads, bid on keywords that trigger display of their ads, and set daily spending budgets. Ads are ranked for presentation based on the maximum cost per click set by the advertiser, click-through rates, and other factors used to determine ad relevance. This process is designed to favor the most relevant ads. GOOG's AdSense technology enables Google Network websites to provide targeted ads from AdWords advertisers.

Advertising accounted for 97% of revenues in the second quarter of 2011 and 96% of revenues in the second quarter of 2010. Google websites accounted for 69% of second-quarter revenues in 2011 and 66% in 2010, and Google Network websites contributed 28% of revenues in the 2011 period and 30% in the 2010 period.

In April 2011, co-founder Larry Page became CEO, replacing Eric Schmidt, who became executive chairman. Co-founder Sergey Brin is working on special projects. Page quickly restructured the management team to have business leaders report directly to him. We think these changes have already started to contribute to faster decision-making and more successful innovation. We expect Schmidt to largely remain the public face of the company, as he serves as GOOG's spokesperson and statesman around the world, in contexts from meetings with customers and partners, to sessions with government representatives. We think Page was a driving force behind GOOG's proposed purchase of Motorola Mobility Holdings (MMI 38, Hold) for \$12.5 billion.

CORPORATE STRATEGY. The word Google has become synonymous with the Internet search category. We believe this reflects GOOG's historically strong focus on the search segment, and the company's related market share leadership in many countries around the world, including the U.S. GOOG has been expanding its efforts beyond the traditional online search category. In recent years, it has announced an e-mail service (Gmail), traditional and satellite mapping offerings (Google Maps and Google Earth), an instant messaging service (Google Talk), a finance offering (Google Finance), a payment service (Google Checkout), a personalized portal offering (iGoogle), a mobile Internet software platform (Android), an Internet browser (Google Chrome), a computer operating system (Google Chrome OS), and social network (Google+), and a "daily deals" offering (Google Offers). We believe these initiatives have been intended to broaden GOOG's reach, and to increasingly attract users and spur activity and engagement. The company has been discontinuing investment in and operations of offerings that have not gained sufficient traction.

COMPETITIVE LANDSCAPE. GOOG's leading competitors in the search segment include Yahoo (YHOO 13, Buy), Microsoft (MSFT 24, Buy), and Ask.com (formerly Ask Jeeves), which is owned by IAC/InterActiveCorp (IACI 35, Hold). Since late 2005, GOOG has renewed search partnerships with AOL (AOL 12, NR), and signed major distribution deals with Dell (DELL 14, Strong Buy) and eBay (EBAY 28, Hold). We see competition from MSFT and YHOO, as the companies move forward on their search and advertising partnership. In April 2011, Ask.com announced that it had renewed its partnership with GOOG for four additional years.

FINANCIAL TRENDS. GOOG has a somewhat limited operating history, particularly as a publicly traded company (its IPO was completed in August 2004). In our view, GOOG's historical annual pro forma operating margins (of between 35% and 45%) and net margins (between 25% and 35%) have been quite robust. However, these margins could be adversely affected as GOOG invests to bolster its Internet search offerings and endeavors to diversify into new businesses (including M&A activity). We also expect greater competition to negatively affect the company's pricing. Moreover, we believe the planned acquisition of MMI would considerably impair GOOG's operating margins. Our EPS estimates include notable expenses related to stock-based compensation.

Capital expenditures increased from \$37 million in 2002 to \$838 million in 2005, and more than doubled in 2006, reflecting notable plans for expansion (hiring people, securing facilities) and investment (technology infrastructure, including hardware and telecommunications capacity). They fell 1% in 2008 and plummeted 66% in 2009, but surged nearly five-fold in 2010 (reflecting the purchase of a building in Manhattan), and we project increases of 25% in 2011 and 20% in 2012. We think the MMI purchase, if consummated, would likely add notably to capital expenditures.

Corporate Information

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SVP, CFO & Chief

Acctg Officer
P. Pichette

CEO

L. Page

SVP, Secy & General

Counsel

COO & SVP

U. Holzle

D. Drummond

Board Members

S. Brin

L. J. Doerr, III

J. L. Hennessy

A. Mather

P. S. Otellini

L. Page

E. E. Schmidt

K. R. Shriram

S. M. Tilghman

Employees

24,400

Auditor

ERNST & YOUNG

Stockholders

3,074

Google Inc

Quantitative Evaluations

S&P Fair Value Rank	5-	1	2	3	4	5
		LOWEST				HIGHEST

Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation	\$609.30	Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that GOOG is slightly undervalued by \$83.79 or 15.9%.
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Investability Quotient Percentile	98
	LOWEST = 1 HIGHEST = 100
	GOOG scored higher than 98% of all companies for which an S&P Report is available.

Volatility	LOW	AVERAGE	HIGH
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Technical Evaluation	BEARISH	Since August, 2011, the technical indicators for GOOG have been BEARISH.
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Insider Activity	NA	UNFAVORABLE	NEUTRAL	FAVORABLE
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Expanded Ratio Analysis

	2010	2009	2008	2007
Price/Sales	6.55	8.37	4.48	13.18
Price/EBITDA	16.30	20.13	11.89	36.13
Price/Pretax Income	17.78	23.63	16.69	38.54
P/E Ratio	22.58	30.37	23.11	52.01
Avg. Diluted Shares Outstg (M)	323.3	319.4	317.5	316.2

Figures based on calendar year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	23.98	19.60	34.98	82.57
Net Income	30.44	29.01	37.13	NM

Ratio Analysis (Annual Avg.)

Net Margin (%)	29.01	25.32	26.06	21.84
Return on Equity (%)	20.68	19.19	20.39	22.50

Company Financials Fiscal Year Ended Dec. 31

Per Share Data (\$)	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Tangible Book Value	121.20	95.44	71.09	63.67	49.02	31.20	10.25	7.66	NA	NA
Cash Flow	30.63	25.19	18.01	16.36	11.79	5.90	1.93	0.75	0.53	0.09
Earnings	26.31	20.41	13.31	13.29	9.94	5.02	1.46	0.51	0.45	0.04
S&P Core Earnings	25.94	20.21	15.54	13.18	9.92	4.68	1.85	0.40	0.44	NA
Dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil	NA	NA	NA
Payout Ratio	Nil	Nil	Nil	Nil	Nil	Nil	Nil	NA	NA	NA
Prices:High	630.85	625.99	697.37	747.24	513.00	446.21	201.60	NA	NA	NA
Prices:Low	433.63	282.75	247.30	437.00	331.55	172.57	85.00	NA	NA	NA
P/E Ratio:High	24	31	52	56	52	89	NM	NA	NA	NA
P/E Ratio:Low	17	14	19	33	33	34	NM	NA	NA	NA

Income Statement Analysis (Million \$)

Revenue	29,321	23,651	21,796	16,594	10,605	6,139	3,189	1,466	440	86.4
Operating Income	11,777	9,836	8,219	6,052	3,550	2,274	970	393	204	21.0
Depreciation	1,396	1,524	1,492	968	572	257	129	50.2	18.0	10.0
Interest Expense	NA	NA	Nil	1.30	0.26	0.78	0.86	1.93	2.57	1.76
Pretax Income	10,796	8,381	5,854	5,674	4,011	2,142	650	347	185	10.1
Effective Tax Rate	NA	22.2%	27.8%	26.0%	23.3%	31.6%	38.6%	69.5%	46.1%	30.6%
Net Income	8,505	6,520	4,227	4,204	3,077	1,465	399	106	99.7	6.99
S&P Core Earnings	8,385	6,458	4,933	4,170	3,071	1,366	503	103	97.4	NA

Balance Sheet & Other Financial Data (Million \$)

Cash	34,975	24,485	15,846	14,219	11,244	8,034	2,132	1,712	146	33.6
Current Assets	41,562	29,167	20,178	17,289	13,040	9,001	2,693	560	232	NA
Total Assets	57,851	40,497	31,768	25,336	18,473	10,272	3,313	2,492	286	84.5
Current Liabilities	9,996	2,747	2,302	2,036	1,305	745	340	235	89.5	NA
Long Term Debt	NA	NA	Nil	Nil	Nil	Nil	Nil	NA	6.50	NA
Common Equity	46,241	36,004	28,239	22,690	17,040	9,419	2,929	2,181	130	NA
Total Capital	46,241	36,004	28,251	22,690	17,080	9,454	2,929	603	178	50.2
Capital Expenditures	4,018	810	2,358	2,403	1,903	838	319	177	37.2	13.1
Cash Flow	9,901	8,045	5,719	5,172	3,649	1,722	528	156	118	17.0
Current Ratio	4.2	10.6	8.8	8.5	10.0	12.1	7.9	2.4	2.6	NA
% Long Term Debt of Capitalization	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	3.7	Nil
% Net Income of Revenue	29.0	27.6	19.4	25.3	29.0	23.9	12.5	7.2	22.7	8.1
% Return on Assets	17.3	18.1	14.8	19.1	21.4	21.6	19.1	18.2	NA	NA
% Return on Equity	20.7	20.3	16.6	21.1	23.3	23.7	23.0	31.4	NA	NA

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Google Inc

Sub-Industry Outlook

Our fundamental outlook for the Internet Software & Services sub-industry is positive, reflecting what we viewed as a stabilized global economy that could contribute to more overall advertising spending, an increasing percentage of related budgets being committed to the Internet (as compared with so-called traditional media), and pricing for associated online offerings that has shown signs of improvement.

U.S. online advertising revenues rose and 3% in 2009 and 15% in 2010, and Standard & Poor's estimates an increase of 10% in 2011. We believe the U.S. accounts for more than a third of this market. We are seeing corporations commit larger percentages of advertising budgets to the Internet as people spend more time online, especially as compared with consumption of other media. Moreover, Internet marketing offers notable targeting and data-focused return-on-investment capabilities. In late 2009, we noted a pickup in display advertising demand and spending, especially on behalf of large companies, in part related to a stronger online holiday shopping season than many expected.

U.S. online retail sales increased 11% in 2009 and 13% in 2010. We think growth will be 11% in 2011. We believe users are attracted to Internet retail offerings in large part due to factors that include a generally substantial selection of products, 24/7/365 store access and associated convenience of home delivery, and a compelling value proposition. According to Forrester Research, an independent technology and market research company, improving multichannel initiatives, better merchandising, more customized offerings, and increasingly sophisticated marketing efforts should help drive considerable segment growth.

Year to date through August 19, the Internet

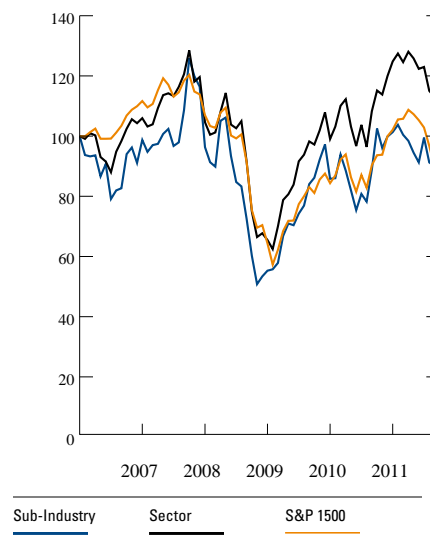
Software & Services index fell 17.5%, compared with an 11.0 decrease in the S&P 1500. In 2010, the sub-industry index increased 2.7%, versus a 14.2% gain for the 1500.

--Scott Kessler

Stock Performance

GICS Sector: Information Technology
Sub-Industry: Internet Software & Services

Based on S&P 1500 Indexes
Month-end Price Performance as of 08/31/11



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Sub-Industry : Internet Software & Services Peer Group*: Internet Content - General

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
Google Inc'A'	GOOG	133,595	525.51	642.96/473.02	1.13	Nil	19	609.30	NR	98	29.0	NA
Baidu Inc ADS	BIDU	333,739	123.40	165.96/94.33	1.79	Nil	58	121.90	NR	88	44.5	1.0
InfoSpace Inc	INSP	321	8.42	9.85/7.33	1.41	Nil	32	8.30	B-	21	5.5	NA
LookSmart Ltd(New)	LOOK	25	1.47	2.48/1.32	1.11	Nil	74	1.50	C	40	1.3	NA
Netease.com Inc ADR	NTES	218	41.76	55.00/35.20	0.93	Nil	13	49.60	NR	87	40.5	NA
Rediff.com India ADR	REDF	397	7.29	17.98/2.90	NM	Nil	NM	NA	NR	35	NA	NA
Sina Corp	SINA	5,294	86.91	147.12/48.50	1.38	Nil	NM	43.50	NR	23	NA	NA
Sohu.com Inc	SOHU	2,253	58.82	109.37/53.36	1.19	Nil	14	68.00	B-	84	24.3	NA
XO Group	XOXO	238	8.24	12.18/7.92	1.24	Nil	55	5.40	B-	90	3.2	NA
Yahoo Inc	YHOO	18,573	14.71	18.84/11.09	0.91	Nil	17	13.80	B	79	19.5	NA

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

Google Inc**S&P Analyst Research Notes and other Company News****September 15, 2011**

Google Inc. has appointed Indy Saha to the recently created role of director of strategy, Google Creative Lab for Europe, the Middle East and Africa. Saha will take up the role in November, after leaving TBWA's offshoot agency Being. He will be responsible for shaping the creative direction of Google's products and services, such as Chrome, Maps and its search product. Saha will work in partnership with Steve Vranakis, who left creative agency VCCP in June to join Google Creative Lab as creative director Google's new-model marketing team, Google Creative Lab, is responsible for marketing everything from the company's Android mobile operating system to its search offering.

September 14, 2011

11:19 am ET ... S&P COMMENTS ON NEWS RELATED TO INTERNET TRAVEL NAMES (EXPE 29.03****): Some 5 months after acquiring ITA Software, Google (GOOG 530, Hold) yesterday made available new Flight Search functionality in its core search offering and via google.com/flights. We used the tool and found it intuitive, but somewhat limited. Importantly, selected flights could easily be booked directly via airline websites, perhaps adversely affecting online travel agencies (OTAs) like EXPE and priceline (PCLN 519 ***), which are underperforming today. Nonetheless, we see Flight Search not impacting OTAs over the near-to-intermediate term, and potential for collaboration. /S. Kessler

September 6, 2011

01:13 pm ET ... S&P REITERATES BUY OPINION ON ADSS OF BAIDU (BIDU 138.96****): Unconfirmed reports from Bloomberg and others indicate that Dell (DELL 14, Strong Buy) is going to produce smartphones for the Chinese market, based on BIDU's Baidu Yi mobile platform. Baidu Yi is based upon Google's (GOOG 515, Hold) Android operating system and we believe it was recently released to developers. We see potential for Baidu Yi in China, given BIDU's success and applications and the challenge that GOOG and its partners seemingly face. We think BIDU has been increasingly focusing on wireless opportunities, and see Baidu Yi as one of multiple related offerings. /S. Kessler

August 22, 2011

09:02 am ET ... S&P UPGRADES OPINION ON SHARES OF GOOGLE TO HOLD FROM SELL, ON VALUATION (GOOG 490.92****): Since a recent intra-day high established less than four weeks ago, GOOG has fallen some 22%, below our 12-month target price of \$500, and we now see it as fairly valued. We continue to see concerns/risks related to the proposed purchase of Motorola Mobility (MMI 38, Hold). Specifically, we wonder if/when the deal will be consummated, whether it would protect Android from patent issues, how the platform could be adversely affected, and to what extent it would weaken GOOG's business model. We continue to believe that related uncertainties will restrain GOOG's stock performance. /S. Kessler

August 16, 2011

02:46 pm ET ... S&P DOWNGRADES OPINION ON SHARES OF GOOGLE TO SELL FROM BUY (GOOG 538.03**): After further consideration of GOOG's plans announced yesterday to purchase Motorola Mobility (MMI 38, Hold), we see greater risk to the company and stock. We expect the transaction to be consummated next year, but later than early '12, which GOOG indicated. Moreover, despite MMI's extensive and valuable patent portfolio, we are not sure it will protect Android from IP issues. We also believe the purchase of MMI would negatively impact GOOG's growth, margins and balance sheet. Based on revised DCF analysis, we are cutting our 12-month target price to \$500 from \$700. /S. Kessler

August 16, 2011

10:20 am ET ... S&P MAINTAINS HOLD OPINION ON SHARES OF RESEARCH IN MOTION (RIMM 26.18****): Following of Google's (GOOG 546, Buy) offer to buy Motorola Mobility (MMI 38, Hold), we do not expect anyone to acquire RIMM in the near-term. While we believe RIMM has valuable patents, we doubt management would part with these assets in a separate transaction. We also believe that RIMM could see increased competition from MMI if it has a stronger ally with a lot of cash. We do expect a slight bump from the new BB7 handsets, but we do not believe it will be a game changer and we are concerned by a lack of carrier support in the U.S. for its tablet product. /James Moorman, CFA

August 15, 2011

GOOG, MOTOROLA MOBILITY say that they have entered into a definitive

agreement under which GOOG will acquire MMI for \$40.00 per share in cash, or a total of about \$12.5B. The transaction was unanimously approved by the boards of directors of both companies.

August 15, 2011

09:19 am ET ... S&P REITERATES BUY OPINION ON SHARES OF GOOGLE (GOOG 563.77****): GOOG announces by far the largest acquisition in its history, the planned purchase of Motorola Mobility (MMI 24, Buy), for some \$12.5 billion. While we are surprised, we are not shocked, as patent issues related to Android, which we have written about, were a major driver of the proposed deal. MMI would be operated separately, but as a manufacturer, we think the combination would detract from GOOG's margins. We also believe MMI would provide notable opportunities to GOOG through its set-top box offerings and partnerships. We expect the transaction to close by early next year. /S. Kessler

August 15, 2011

09:22 am ET ... S&P REDUCES OPINION ON SHARES OF MOTOROLA MOBILITY TO HOLD FROM BUY (MMI 24.47****): MMI announced it has agreed to Google's (GOOG 564, Buy) cash offer of \$40 per share or \$12.5B, roughly a 63% premium over Friday's close. GOOG announced on its conference call that it plans to run MMI as a separate company and believes the deal could close by the end of 2011 or in early 2012. We are increasing our 12-month target price on MMI by \$12 to \$40, based on the terms of the proposed cash deal. /James Moorman, CFA

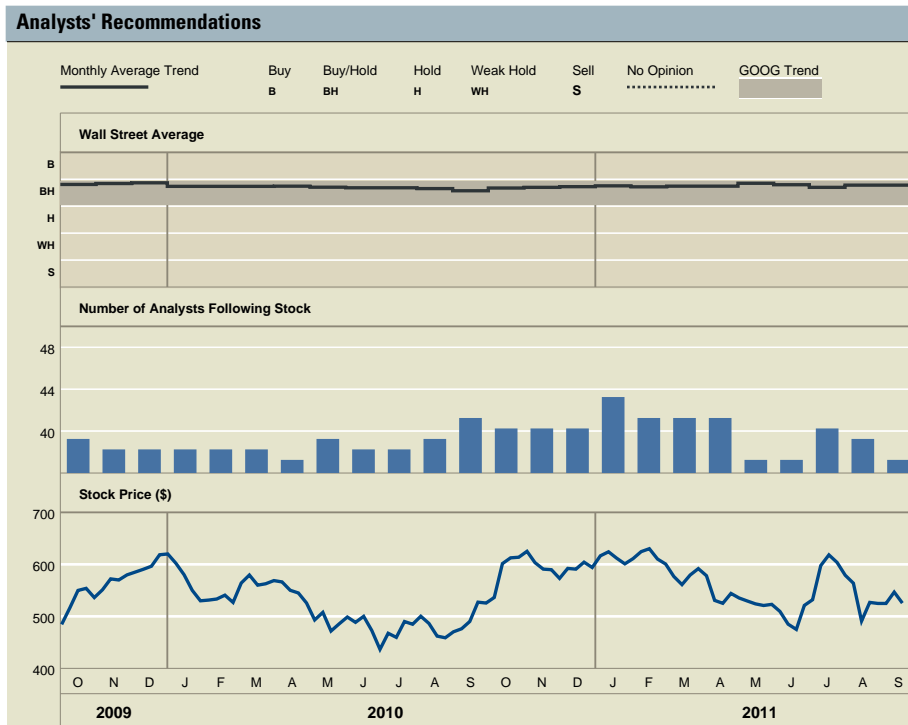
August 15, 2011

02:24 pm ET ... S&P MAINTAINS HOLD OPINION ON SHARES OF NOKIA CORP (NOK 6.13****): We believe that NOK's share price in the near term could be driven by speculation about a possible bid from another smartphone industry player, following Google's (GOOG 554, Buy) offer to purchase Motorola Mobility (MMI 38, Hold). We believe smartphone vendors could reduce risk from GOOG's greater patent power following the deal by switching to Windows based phones and the best strategy for Microsoft (MSFT 25, Buy) might be to remain hardware-agnostic and a truly independent smartphone OS licensor. /James Crawshaw, CFA

August 10, 2011

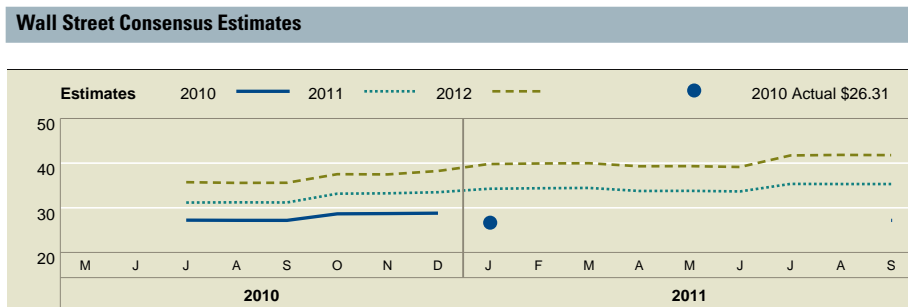
Google Inc. has appointed GetJar's CMO Patrick Mork as its marketing director for mobile applications. Mork joins as Google looks to build on Android's market share lead against Apple, by adding more members to its mobile team and as it gears up to launch mobile contactless payment as part of its "mobile wallet". The company is set to announce further mobile marketing heads, including a head of commerce marketing, in the coming weeks. In Mork's new position he will be responsible for the company's revamped Android Market and warding off rivals' app offerings, including Microsoft, which recently placed its Office software in the cloud. In his three years at GetJar, Mork has helped the company achieve more than 2 billion downloads and, as a shareholder, has helped grow the company from seven to 50 employees. He joins Google in September.

Google Inc



Of the total 45 companies following GOOG, 38 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	13	34	15	15
Buy/Hold	20	53	20	18
Hold	4	11	4	4
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	1	3	0	0
Total	38	100	39	37



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2012	42.01	45.31	38.41	36	12.5
2011	35.47	36.85	31.28	38	14.8
2012 vs. 2011	▲ 18%	▲ 23%	▲ 23%	▼ -5%	▼ -16%
Q3'12	10.29	11.04	9.44	16	51.1
Q3'11	8.74	9.27	8.09	33	60.1
Q3'12 vs. Q3'11	▲ 18%	▲ 19%	▲ 17%	▼ -52%	▼ -15%

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

- Over 30 firms follow this stock; not all firms are displayed.
- Argus Research Company
 - Atlantic Equities
 - Axia Financial Research
 - B. Riley & Company, Inc.
 - BGC Partners
 - BMO Capital Markets-us
 - Barclays Capital
 - Battle Road Research
 - Bofa Merrill Lynch
 - Cantor Fitzgerald
 - Citi
 - Collins Stewart LLC
 - Cowen AND Company
 - Credit Agricole Securities
 - Credit Suisse - North America
 - Deutsche Bank North America
 - Evercore Partners
 - First Global Stockbroking Ltd.
 - Goldman Sachs & Co.
 - Hamburger Sparkasse (haspa)
 - Hilliard Lyons
 - Hudson Square Research
 - Janco Partners, Inc.
 - Jefferies & Co.
 - Jpmorgan
 - Macquarie Research
 - Morgan Stanley
 - Morningstar, Inc.
 - Needham & Company
 - Oppenheimer & Co.

Wall Street Consensus vs. Performance

For fiscal year 2011, analysts estimate that GOOG will earn \$35.47. For the 2nd quarter of fiscal year 2011, GOOG announced earnings per share of \$7.68, representing 22% of the total annual estimate. For fiscal year 2012, analysts estimate that GOOG's earnings per share will grow by 18% to \$42.01.

Google Inc

Glossary

S&P STARS

Since January 1, 1987, Standard and Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P 12-Month Target Price

The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

S&P EPS Estimates

Standard & Poor's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P EPS estimates reflect either forecasts of S&P equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to Standard & Poor's Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

S&P Core Earnings

Standard & Poor's Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the Standard & Poor's definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

Qualitative Risk Assessment

The S&P equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment

is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

S&P Quality Ranking

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's Quality Rankings for common stocks, which are designed to capsize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization
NR Not Ranked	

S&P Fair Value Rank

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

Funds From Operations FFO

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves

as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

S&P's IQ Rationale:

Google Inc 'A'

	Raw Score	Max Value
Proprietary S&P Measures	26	115
Technical Indicators	25	40
Liquidity/Volatility Measures	20	20
Quantitative Measures	68	75
IQ Total	139	250

Volatility

Rates the volatility of the stock's price over the past year.

Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

Relative Strength Rank

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

Global Industry Classification Standard (GICS)

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

S&P Issuer Credit Rating

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

Exchange Type

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq SmallCap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

S&P Equity Research Services

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Google Inc

Abbreviations Used in S&P Equity Research Reports

CAGR- Compound Annual Growth Rate; **CAPEX**- Capital Expenditures; **CY**- Calendar Year; **DCF**- Discounted Cash Flow; **EBIT**- Earnings Before Interest and Taxes; **EBITDA**- Earnings Before Interest, Taxes, Depreciation and Amortization; **EPS**- Earnings Per Share; **EV**- Enterprise Value; **FCF**- Free Cash Flow; **FFO**- Funds From Operations; **FY**- Fiscal Year; **P/E**- Price/Earnings ; **PEG Ratio**- P/E-to-Growth Ratio; **PV**- Present Value; **R&D**- Research & Development; **ROE**- Return on Equity; **ROI**- Return on Investment; **ROIC**- Return on Invested Capital; **ROA**- Return on Assets; **SG&A**- Selling, General & Administrative Expenses; **WACC**- Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).

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In contrast to the qualitative STARS recommendations covered in this report, which are determined and assigned by S&P equity analysts, S&P's quantitative evaluations are derived from S&P's proprietary Fair Value quantitative model. In particular, the Fair Value Ranking methodology is a relative ranking methodology, whereas the STARS methodology is not. Because the Fair Value model and the STARS methodology reflect different criteria, assumptions and analytical methods, quantitative evaluations may at times differ from (or even contradict) an equity analyst's STARS recommendations. As a quantitative model, Fair Value relies on history and consensus estimates and does not introduce an element of subjectivity as can be the case with equity analysts in assigning STARS recommendations.

S&P Global STARS Distribution

In North America: As of June 30, 2011, research analysts at Standard & Poor's Equity Research Services North America recommended 38.4% of issuers with buy recommendations, 54.8% with hold recommendations and 6.8% with sell recommendations.

In Europe: As of June 30, 2011, research analysts at Standard & Poor's Equity Research Services Europe recommended 36.0% of issuers with buy recommendations, 48.3% with hold recommendations and 15.7% with sell recommendations.

In Asia: As of June 30, 2011, research analysts at Standard & Poor's Equity Research Services Asia recommended 45.1% of issuers with buy recommendations, 47.7% with hold recommendations and 7.2% with sell recommendations.

Globally: As of June 30, 2011, research analysts at Standard & Poor's Equity Research Services globally recommended 38.6% of issuers with buy recommendations, 53.2% with hold recommendations and 8.2% with sell recommendations.

★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★★★★☆ **1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks: In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

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S&P Global Quantitative Recommendations Distribution

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In Asia: As of June 30, 2011, Standard & Poor's Quantitative Services Asia recommended 45.1% of issuers with buy recommendations, 23.0% with hold recommendations and 33.0% with sell recommendations.

Globally: As of June 30, 2011, Standard & Poor's Quantitative Services globally recommended 43.0% of issuers with buy recommendations, 21.0% with hold recommendations and 34.0% with sell recommendations.

Additional information is available upon request.

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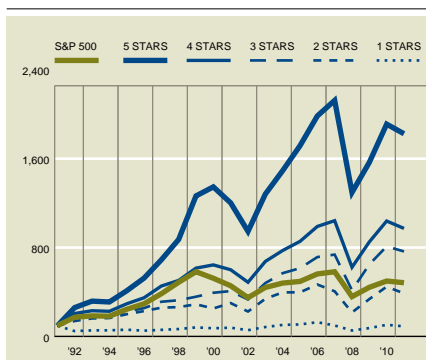
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U.S. STARS Cumulative Model Performance
Hypothetical Growth Due to Price Appreciation of \$100
For the Period 12/31/1986 through 08/31/2011



The performance above represents only the results of Standard & Poor's model portfolios. Model performance has inherent limitations. Standard & Poor's maintains the models and calculates the model performance shown, but does not manage actual assets. The U.S. STARS model performance chart is only an illustration of Standard & Poor's (S&P) research; it shows how U.S. common stocks, ADRs (American Depositary Receipts) and ADSs (American Depositary Shares), collectively "equities", that received particular STARS rankings performed. STARS categories are models only; they are not collective investment funds. The STARS performance does not show how any actual portfolio has performed. STARS model performance does not represent the results of actual trading of investor assets. Thus, the model performance shown does not reflect the impact that material economic and market factors might have had on decision-making if actual investor money had been managed. Performance is calculated using a time-weighted rate of return. While model performance for some or all STARS categories performed better than the S&P 500 for the period shown, the performance during any shorter period may not have, and there is no assurance that they will perform better than the S&P 500 in the future. STARS does not take into account any particular investment objective, financial situation or need and is not intended as an investment recommendation or strategy. Investments based on the STARS methodology may lose money. High returns are not necessarily the norm and there is no assurance that they can be sustained. Past model performance of STARS is no guarantee of future performance.

For model performance calculation purposes, the equities within each STARS category at December 31, 1986 were equally weighted. Thereafter, additions to the composition of the equities in each STARS category are made at the average value of the STARS category at the preceding month end with no rebalancing. Deletions are

made at the closing price of the day that the deletion is made. Performance was calculated from inception through March 31, 2003 on a monthly basis. Thereafter, performance is calculated daily. Equities in each STARS category will change over time, and some or all of the equities that received STARS rankings during the time period shown may not have maintained their STARS ranking during the entire period.

The model performance does not consider taxes and brokerage commissions, nor does it reflect the deduction of any advisory or other fees charged by advisors or other parties that investors will incur when their accounts are managed in accordance with the models. The imposition of these fees and charges would cause actual performance to be lower than the performance shown. For example, if a model returned 10 percent on a \$100,000 investment for a 12-month period (or \$10,000) and an annual asset-based fee of 1.5 percent were imposed at the end of the period (or \$1,650), the net return would be 8.35 percent (or \$8,350) for the year. Over 3 years, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.1%, a total fee of \$5,375 and a cumulative net return of 27.2% (or \$27,200). Fees deducted on a frequency other than annual would result in a different cumulative net return in the preceding example.

The Standard & Poor's 500 index is the benchmark for U.S. STARS. The S&P 500 index is calculated in U.S. dollars and does not take into account the reinvestment of dividends. Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. The S&P 500 index includes a different number of constituents and has different risk characteristics than the STARS equities. Some of the STARS equities may have been included in the S&P 500 index for some (but not necessarily all) of the period covered in the chart, and some such equities may not have been included at all. The S&P 500 excludes ADRs and ADSs. The methodology for calculating the return of the S&P 500 index differs from the methodology of calculating the return for STARS. Past performance of the S&P 500 index is no guarantee of future performance.

An investment based upon the models should only be made after consulting with a financial advisor and with an understanding of the risks associated with any investment in securities, including, but not limited to, market risk, currency risk, political and credit risks, the risk of economic recession and the risk that issuers of securities or general stock market conditions may worsen, over time. Foreign investing involves certain risks, including currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, less liquidity and the potential for market volatility and political instability. As with any investment, investment returns and principal value will fluctuate, so that when redeemed, an investor's shares may be worth more or less than their original cost.

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