FIRST HORIZON NATIONAL CORP
Form DEF 14A
March 13, 2017

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Sec. 240.14a-12

FIRST HORIZON NATIONAL CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:*

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

*Set forth the amount on which the filing fee is calculated and state how it was determined.

March 13, 2017

Dear Fellow Shareholder:

You are cordially invited to attend First Horizon National Corporation's 2017 annual meeting of shareholders. We will hold the meeting on April 25, 2017 in the Auditorium, First Tennessee Building, 165 Madison Avenue, Memphis, Tennessee, at 10:00 a.m. local time.

Our strategic and operating results in 2016 were excellent. We experienced exceptional loan and deposit growth across First Tennessee. We retained our No. 1 deposit market share in Tennessee and continued to grow in our other markets. We expanded our specialty banking businesses by attracting top bankers in franchise finance, healthcare finance, music industry banking and structured equipment finance. Highlights include:

- Total shareholder return (TSR) for 2016 was 40%, our fifth consecutive year of positive TSR.
- Consolidated diluted earnings per share available to common shareholders for 2016 were 94 cents per share.
- Annual common dividend rate increased by 17% to 28 cents per share in 2016 and by 29% to 36 cents per share in early 2017.
- Consolidated revenues grew 9%, while average loans and core deposits grew 10% and 11% compared with 2015.
- Regional bank average loans were up 15% (following a similar rise in 2015) and net interest income rose 13% for the year.
- Strong commercial lending growth was enhanced by our acquisition of franchise finance loan portfolios.
- Fixed income noninterest income was up 16% in 2016 compared to 2015.
- We continued to be disciplined in our deployment of resources based on economic profit principles and risk-adjusted return on capital analytics and application of these concepts to individual products throughout the company.

As we mark our 153rd year, our Firstpower culture, with its emphasis on Accountability, Adaptability, Integrity and Relationships, continues to help us meet the challenges that we face. The strength of our culture and the quality of our people were reaffirmed with top-employer recognition from American Banker, Working Mother, the National Association for Female Executives, the Human Rights Campaign, the Dave Thomas Foundation for Adoption, and the Profiles in Diversity Journal.

We strive to make a difference in our communities via the First Tennessee Foundation, which made nearly $5 million in grants and matching gifts in 2016, as well as our newly created $50 million First Tennessee Community Development Fund, which will award up to $3 million annually in grants to organizations serving low- to moderate-income people and neighborhoods. One of our newest contributions is offering financial empowerment through our collaboration with Operation HOPE, and we expect to have 15 Operation HOPE locations in branches across our markets by the end of 2017.

Accompanying this letter are the formal notice of the annual meeting, our 2017 proxy statement and our annual report to shareholders, which contains detailed financial information relating to our activities and operating performance during 2016. Though it is being delivered to you with our proxy statement, the annual report to shareholders is not "soliciting material" under SEC Regulation 14A.

At the meeting, we will ask you to elect eleven directors; to vote on an advisory resolution to approve executive compensation ("say on pay"); to vote on an advisory proposal to determine the frequency (whether every year, every two years or every three years) of future say on pay votes; and to ratify the appointment of KPMG LLP as our independent auditors for 2017. The accompanying proxy statement contains information about these matters.

Your vote is important. You may vote your proxy by telephone, over the internet or, if you received a paper proxy card by mail, you may also vote by signing, dating, and returning the proxy card by mail (as directed on the proxy card). Even if you plan to attend the meeting, please vote your proxy by telephone or over the internet or return your proxy card as soon as possible.

Thank you for your continued support of First Horizon, and I look forward to seeing you at the annual meeting.

D. Bryan Jordan

Chairman of the Board,

President and Chief Executive Officer

Notice of Annual Shareholders' Meeting

April 25, 2017

10:00 a.m. Central Time

The annual meeting of the holders of First Horizon National Corporation's common stock will be held on April 25, 2017, at 10:00 a.m. local time in the Auditorium, First Tennessee Building, 165 Madison Avenue, Memphis, Tennessee.

The items of business are:

1. Election of eleven directors to serve until the 2018 annual meeting of shareholders and until their successors are duly elected and qualified.

2. Vote on an advisory resolution to approve executive compensation ("say on pay").

3. Vote on an advisory proposal to determine the frequency (whether every year, every two years or every three years) of future say on pay votes.

4. Ratification of the appointment of auditors.

These items are described more fully in the following pages, which are made a part of this notice. The close of business on February 24, 2017 is the record date for the meeting. All holders of record of First Horizon's common stock as of that time are entitled to vote at the meeting.

Management requests that you vote your proxy by telephone or over the internet or that you sign and return the form of proxy promptly, as applicable, so that if you are unable to attend the meeting your shares can nevertheless be voted. You may revoke a proxy at any time before it is exercised at the annual meeting in the manner described on page 5 of the proxy statement.

Clyde A. Billings, Jr.

Senior Vice President, Assistant General Counsel
and Corporate Secretary

Memphis, Tennessee

March 13, 2017

IMPORTANT NOTICE

Please (1) vote your proxy by telephone (2) vote your proxy over the internet or (3) mark, date, sign and promptly mail the form of proxy, as applicable, so that your shares will be represented at the meeting.

If you hold your shares in street name, it is critical that you instruct your broker or bank how to vote if you want your vote to count in the election of directors, the advisory resolution to approve executive compensation, and the advisory proposal to determine the frequency of the say on pay vote (Vote Item Nos. 1, 2 and 3 of this proxy statement). Under current regulations, if you hold your shares in street name and you do not instruct your broker or bank how to vote in these matters, no votes will be cast on your behalf with respect to these matters. For additional information, see page 6 of the proxy statement.

Proxy Statement for 2017 First Horizon National Corporation Annual Meeting

Table of Contents

Proxy Summary

Please read the entire proxy statement before voting. This summary highlights information contained elsewhere in this proxy statement and does not contain all of the information that you should consider. Page references are supplied to help you find further information in the proxy statement.

The Annual Meeting

Time and Date:	10:00 a.m. local time, April 25, 2017
Place:	Auditorium, First Tennessee Building 165 Madison Avenue, Memphis, Tennessee
Record Date:	February 24, 2017
Shares Outstanding and Entitled to Vote on Record Date:	233,782,557
Internet Availability:	First Horizon uses the SEC's "notice and access" rule. Notice of internet availability of proxy materials will be sent on or about March 13, 2017.

Vote Items

	Matter	Board Recommendation	Page Reference
Vote Item 1	**Election of directors.** We are asking you to elect the 11 nominees named in this proxy statement as directors for a one-year term. Each of our current directors is standing for re-election.	FOR each director nominee	27
Vote Item 2	**Advisory resolution on executive compensation.** In accordance with SEC rules, we are asking you to approve, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement.	FOR	34
Vote Item 3	**Say-on-pay vote frequency.** We are asking you to approve continuing our current policy of holding a "say-on-pay" vote every year.	FOR a say-on-pay vote frequency of EVERY YEAR	36
Vote Item 4	**Ratification of appointment of auditors.** We are asking you to ratify the appointment of KPMG LLP as our auditors for 2017.	FOR	37

2016 Performance Highlights

Our strategic and operating results in 2016 were excellent. Compared to 2015, we achieved

9% growth in consolidated revenues	10% growth in average loans	11% growth in core deposits

Total shareholder return (TSR) for 2016 was 40%, our fifth consecutive year of positive TSR. Our TSR for the past five years is shown in the table below:

Compensation Highlights (detailed discussion begins on page 40)

Our compensation policies and philosophies are designed to align the interests of our employees with the interests of our shareholders. We seek to attract, retain, incent, and reward individuals who contribute to our long-term success. We strive to link pay to Company performance for all executive officers, including our CEO. Our compensation practices embrace many best practice corporate governance principles.

D. Bryan Jordan, our CEO, was recruited as CFO in 2007 and promoted to CEO in September 2008. He has led the restructuring of the company, the development and implementation of new strategies, and the recruitment of the current management team. Our operating results have improved significantly. The Compensation Committee considered his significant contributions in turning around the company when making decisions about his pay for 2016. In each of the past three years, Mr. Jordan has met or exceeded his personal goals. He has provided critical leadership in challenging times. Mr. Jordan's target-level pay is in line with the median of FHN's peer group. His pay mix—the structure of the various components of his pay—is also consistent with that of with company peers. His direct compensation actually paid in 2016 (consisting of salary, bonus paid, and stock awards vested) was approximately $3.6 million.

Our compensation practices embrace many best practice corporate governance principles.

Compensation Practices We Employ	**Practices We Avoid or Prohibit**
Performance-based (at-risk) and stock-based pay emphasized	Tax gross-up features*
Performance measures drive shareholder value	Stock option repricings
Performance measures emphasize controllable outcomes	Discount-priced stock options
Committee use of independent consultant on pay	Single-trigger change in control payouts
Meaningful share ownership requirements	Employment agreements
Require holding 50% of after-tax vested stock awards during career with the company, rising to 75% if multiple-of-salary minimum stock ownership levels are not met	Hedging transactions in First Horizon stock (*e.g.*, trading derivatives, taking short positions, or hedging long positions)
Double-trigger on change in control features and agreements (CIC event plus qualifying termination)	Personal use of corporate aircraft
Clawbacks if financial results relevant to cash or stock performance awards are restated under various circumstances	

* An excise tax gross-up feature is grandfathered in certain older change-in-control severance agreements, but has not been used in new agreements since 2008.

Governance Highlights (a detailed discussion begins on page 8)

First Horizon is dedicated to operating in accordance with sound corporate governance principles. We believe that these principles not only form the basis for our reputation of integrity in the marketplace but also are essential to our efficiency and overall success. Some of our corporate governance principles, policies and practices are listed below.

Annual director elections
Majority voting
Independent Lead Director
10 of 11 directors are independent
Board refreshment: 5 new directors in the last 6 years
Clawback policy
Stock ownership guidelines for directors and executives
8 of 11 directors serve on one or no other public company boards

*****Top 50 Companies for Executive Women*****

*****Top Employer Recognition from American Banker, Working Mother, Profiles in Diversity Journal, the Dave Thomas Foundation for Adoption and the Human Rights Campaign*****

*****Top 10 Technology Innovators*****

*****Financial Empowerment through Collaboration with Operation HOPE*****

*****Strong 152 Year Tradition of Service and Stability*****

3

2017 Annual Meeting & Proxy Statement—General Matters

Purpose of the Annual Meeting of Common Shareholders

Our Board of Directors is soliciting proxies to be voted at our upcoming annual meeting of the holders of First Horizon’s common stock (and at any adjournment or adjournments of the meeting). At the meeting, our common shareholders will act to elect eleven directors; to vote on an advisory resolution to approve executive compensation (“say on pay”); to vote on an advisory proposal to determine the frequency (whether every year, every two years, or every three years) of future say on pay votes; and to ratify the appointment of KPMG LLP as our independent auditors for 2017.

Date, Time & Place of the Annual Meeting

The annual meeting of the holders of our common stock will be held on Tuesday, April 25, 2017 at 10:00 a.m. local time in the Auditorium of our principal executive office, First Tennessee Building, 165 Madison Avenue, Memphis, Tennessee 38103. To obtain additional information or directions to be able to attend the meeting and vote in person, contact our Corporate Communications office at 866-365-4313.

Terms Used in this Proxy Statement

In this proxy statement, First Horizon National Corporation is referred to by the use of “we,” “us” or similar pronouns, or simply as “FHN” or “First Horizon,” and First Horizon and its consolidated subsidiaries are referred to collectively as “the company.” The term “shares” means First Horizon’s common stock, and the term “shareholders” means the holders of that common stock, unless otherwise clearly stated. In addition,

the notice of the 2017 annual meeting of shareholders, this proxy statement, our annual report to shareholders for the year ended December 31, 2016, and the proxy card are referred to as our “proxy materials.” Though the annual report to shareholders is included in the term “proxy materials,” it is not “soliciting material” under SEC Regulation 14A.

Internet Availability of Proxy Materials

Again this year, we are using the SEC’s “notice and access” rule, which allows us to furnish our proxy materials over the internet to our shareholders instead of mailing paper copies of those materials to each shareholder. As a result, beginning on or about March 13, 2017, we sent to most of our shareholders by mail or e-mail a notice of internet availability of proxy materials, which contains instructions on how to access our proxy materials over the internet and vote online. This notice is not a proxy card and cannot be used to vote your shares. If you received only a notice, you will not receive paper copies of the proxy materials unless you request the materials by following the instructions on the notice.

If you received a paper copy of the notice, we encourage you to help us save money and reduce the environmental impact of delivering paper notices by signing up to receive all of your future proxy materials electronically.

If you own shares of common stock in more than one account—for example, in a joint account with your spouse and in your individual brokerage account—you may have received more than one notice. To vote all of your shares, please follow each of the separate voting instructions that you received for your shares of common stock held in each of your different accounts.

Voting by Proxy & Revoking your Proxy

The First Horizon Board of Directors is asking you to give us your proxy. Giving us your proxy means that you authorize another person or persons to vote your shares of our common stock at the annual meeting of shareholders in the manner you direct. Giving us your proxy allows your shares to be voted even if you do not attend the annual meeting in person. You may revoke your proxy at any time before it is exercised by writing to the Corporate Secretary, by timely delivering a properly executed, later-dated proxy (including by telephone or internet) or by voting by ballot at the meeting. All shares represented by valid proxies received pursuant to this solicitation, and not revoked before they are exercised, will be voted in the manner specified on the proxy. **If you submit a proxy**

without giving specific voting instructions, your shares will be voted in accordance with the recommendations of our Board of Directors as follows:

FOR:

1. Election of eleven directors to serve until the 2017 annual meeting of shareholders and until their successors are duly elected and qualified.

2. Approval of an advisory resolution to approve executive compensation ("say on pay").

3. Approval of an annual frequency for the say on pay vote.

4. Ratification of the appointment of auditors.

Solicitation of Proxies

First Horizon will pay the entire cost of soliciting the proxies. In following up the original solicitation of the proxies, we may request brokers and others to send proxy materials to the beneficial owners of the shares and may reimburse them for their expenses in so doing. If we deem it necessary, we may also use several of our employees to solicit proxies from the shareholders, either personally or by telephone, letter or e-mail, for which they will

receive no compensation in addition to their normal compensation. We have hired Morrow Sodali LLC, 470 West Ave., Stamford, CT 06902 to aid us in the solicitation of proxies for a fee of $8,000 plus out-of-pocket expenses. An additional charge of $6.50 per holder will be incurred should we choose to have Morrow Sodali LLC solicit individual holders of record.

Quorum & Vote Requirements

Except for our depositary shares (each representing a 1/4000th interest in a share of non-cumulative perpetual preferred stock, Series A, issued by First Horizon on January 31, 2013), which have limited voting rights and no right to vote at the annual meeting, our common stock is our only class of voting securities. There were 233,782,557 shares of common stock outstanding and entitled to vote as of February 24, 2017, the record date for the annual shareholders' meeting. Each share is entitled to one vote. A quorum of the shares must be represented at the meeting to take action on any matter at the meeting. A majority of the votes entitled to be cast constitutes a quorum for purposes of the annual meeting. Both "abstentions" and broker "non-votes" will be considered present for quorum purposes, but will not otherwise have any effect on the vote items.

The affirmative vote of a majority of the votes cast is required to elect the nominees as directors, and

we have adopted a director resignation policy that requires a director who does not receive the affirmative vote of a majority of the votes cast with respect to his or her election to tender his or her resignation. For additional information on our director resignation policy, see the summary of the policy in the "Corporate Governance & Board Matters" section of this proxy statement beginning on page 8. The policy is also contained in our Corporate Governance Guidelines, which are available on our website at www.firsthorizon.com (click on "Investor Relations," then "Corporate Governance," and then "Governance Documents").

The affirmative vote of a majority of the votes cast is required to approve the advisory resolution to approve executive compensation, to approve an annual frequency for the say on pay vote and to ratify the appointment of auditors.

Effect of Not Casting Your Vote

Shares Held in Street Name. If you hold your shares in street name it is critical that you instruct your broker or bank how to vote if you want your vote to count in the election of directors, the advisory resolution to approve executive compensation and the advisory proposal to determine the frequency of the say on pay vote (Vote Item Nos. 1, 2 and 3 of this proxy statement). Under current regulations, your broker or bank will not have the ability to vote your uninstructed shares in these matters on a discretionary basis. Thus, if you hold your shares

in street name and you do not instruct your broker or bank how to vote, no votes will be cast on your behalf with respect to these matters. Your broker or bank will have the ability to vote uninstructed shares on the ratification of the appointment of auditors (Vote Item No. 4).

Shareholders of Record. If you are a shareholder of record and you do not vote your proxy, no votes will be cast on your behalf on any of the items of business at the annual meeting unless you attend the annual meeting and vote your shares there.

Duplicate Mailings & Householding

Duplicate mailings in most cases are inconvenient for you and an unnecessary expenditure for us. We encourage you to eliminate them whenever you can as described below.

Multiple Accounts. Some of our shareholders own their shares using multiple accounts registered in variations of the same name. If you have multiple accounts, we encourage you to consolidate your accounts by having all your shares registered in exactly the same name and address. You may do this by contacting our stock transfer agent, Wells Fargo Bank, N.A., by phone toll-free at 1-877-536-3558, or by mail to Shareowner Services, P.O. Box 64854, St. Paul, MN 55164-0854.

Shares Held in Street Name. If you and other members of your household are beneficial owners of shares, meaning that you own shares indirectly through a broker, bank, or other nominee, you may eliminate any duplication of mailings by contacting your broker, bank, or other nominee. If you have eliminated duplicate mailings but for any reason would like to resume them, you must contact your broker, bank, or other nominee.

Shareholders with the Same Address; Requesting Changes. If you are among the shareholders who receive paper copies of our proxy materials, SEC rules allow us to mail a single copy of those materials to all shareholders residing at the same address if certain conditions are met. This practice is referred to as “householding.” (Householding does not apply to either the proxy card or the notice of internet availability of proxy materials.) If your household receives only one copy of the proxy materials and

if you wish to start receiving separate copies in your name, apart from others in your household, you must request that action by contacting our stock transfer agent, Wells Fargo Bank, N.A., by phone toll-free at 1-877-536-3558 or by writing to it at Shareowner Services, Attn: Householding, P.O. Box 64854, St. Paul, MN 55164-0854. That request must be made by each person in the household who desires a separate copy. Within 30 days after your request is received we will start sending you separate mailings. If you and members of your household are receiving multiple copies and you want to eliminate the duplications, please request that action by contacting Wells Fargo using the contact information given in this paragraph above. In either case, in your communications, please refer to your account number and our company number (998). Please be aware that if you hold shares both in your own name and as a beneficial owner through a broker, bank or other nominee, it is not possible to eliminate duplications as between these two types of ownership. If your household receives only a single copy of the proxy materials, and if you desire your own separate copies for the 2017 annual meeting, you may pick up copies in person at the meeting in April or download them from our website using the website address listed in the box below. If you would like additional copies mailed, we will mail them promptly if you request them from our Investor Relations department at our website, by phone at 1-901-523-4444 (ask for the Investor Relations department), or by mail to Investor Relations, P.O. Box 84, Memphis, TN 38101. However, we cannot guarantee you will receive mailed copies before the 2017 annual meeting.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 25, 2017.

This proxy statement, our proxy card, and our annual report to shareholders are available at http://ir.fhnc.com.

7

Corporate Governance & Board Matters

In accordance with our Bylaws, First Horizon is managed under the direction of and all corporate powers are exercised by or under the authority of our Board of Directors. Our Board of Directors currently has eleven members. All of our directors are also directors of First Tennessee Bank National Association (the "Bank" or "FTB"). The Bank is our principal operating subsidiary.

First Horizon is dedicated to operating in accordance with sound corporate governance principles. We believe that these principles not only form the basis for our reputation of integrity in the marketplace but also are essential to our efficiency and overall success. Some of our corporate governance principles, policies and practices are highlighted below.

Corporate Governance Highlights

- **Annual director elections.** All our directors are elected by our shareholders every year.
- **Majority voting.** Our directors are elected by a majority of the votes cast in uncontested elections (plurality vote in contested elections).
- **Director resignation policy.** We have adopted a director resignation policy for directors who do not receive the affirmative vote of a majority of the votes cast.
- **Independence.** All current non-employee director nominees are independent under the NYSE listing standards.
- **Board refreshment.** Our Board values fresh perspectives. Over the past six years, we have added five new directors to our Board, and a majority of our directors have served for nine years or fewer.
- **Shareholder engagement.** Dialogue with our shareholders is a critical part of our company's success. In addition to our Investor Relations area's ongoing dialogue with our shareholders via conferences, road shows, on-site visits and the like, over the past several years our outside directors have met with both investors and proxy advisory firms to discuss issues of importance to them.
- **Lead Director.** Independent director Colin V. Reed serves as the Lead Director. The principal duties of the Lead Director are specified in the Corporate Governance Guidelines.
- **Other directorships.** All of our directors serve on three or fewer public company boards (other than First Horizon); nine of our eleven current directors serve on one or no other public company boards.
- **Clawback.** Our Compensation Recovery Policy (commonly known as a "clawback" policy) makes performance compensation paid based on erroneous financial data recoverable if the recipient caused the error or is responsible for the data's accuracy. Additional clawback provisions apply to most types of stock awards if certain other misconduct occurs, such as fraud or certain competitive activities, or (starting in 2014) if grant or payment of an award was based on erroneous financial data or if a termination for cause occurs.

- **Stock ownership guidelines.** These guidelines require non-employee directors to own five times their annual cash base retainer in First Horizon stock. Executive officers must own between two and six times their salary in First Horizon stock, depending on their position. See page 45 for additional details about the guidelines.

- **Individual director evaluations.** Each year, the Nominating & Corporate Governance Committee evaluates the performance of each non-employee director prior to determining whether to recommend him or her to the Board for renomination. See page 27 for additional detail on this process.

- **Hedging.** Company policy prohibits directors and executive officers from hedging with respect to First Horizon stock.

8

Key Corporate Governance Documents

Our Board has adopted the following key corporate governance documents. All of these are available, along with several other governance documents, such as our compensation recovery policy, stock ownership guidelines, and committee charters, on our website at www.firsthorizon.com (click on "Investor Relations," then "Corporate Governance," and then "Governance Documents"). Paper copies are also available to shareholders upon request to the Corporate Secretary.

Corporate Governance Guidelines	• Provide our directors with guidance as to their legal accountabilities, promote the functioning of the Board and its committees, and set forth a common set of expectations as to how the Board should perform its functions.
Code of Business Conduct and Ethics	• Sets forth the overarching principles that guide the conduct of every aspect of our business.
	• Any waiver of the Code of Business Conduct and Ethics for an executive officer or director must be promptly disclosed to shareholders in any manner that is acceptable under the NYSE listing standards, including but not limited to distribution of a press release, disclosure on our website, or disclosure on Form 8-K.
Code of Ethics for Senior Financial Officers	• Promotes honest and ethical conduct, proper disclosure of financial information and compliance with applicable governmental laws, rules and regulations by our senior financial officers and other employees who have financial responsibilities.
	• We intend to satisfy our disclosure obligations under Item 5.05 of Form 8-K related to amendments or waivers of the Code of Ethics for Senior Financial Officers by posting such information on our website.

We have also adopted a Compliance and Ethics Program Policy, which highlights our commitment to having an effective compliance and ethics program by exercising due diligence to prevent and detect criminal conduct and otherwise by promoting an organizational culture that encourages ethical conduct and a commitment to compliance with the law.

Director Resignation Policy

Our Board has adopted a director resignation policy that requires a director who does not receive the affirmative vote of a majority of the votes cast with respect to his or her election to tender his or her resignation. Under the policy, the Nominating & Corporate Governance Committee must promptly consider the resignation tender and a range of possible responses and make a recommendation to the Board. The Board will act on the Nominating & Corporate Governance Committee's recommendation within 90 days following certification of the shareholder vote. Thereafter, the Board will promptly disclose its decision regarding whether to accept the director's resignation tender, including an explanation of the decision (or the reason(s) for rejecting the resignation offer, if applicable), in a Form 8-K (or other appropriate report) filed with or furnished to the Securities and Exchange Commission. If any director's tender of resignation under the policy is not accepted by the Board, such director will serve until the next annual meeting of shareholders and until his or her successor has been duly elected and qualified. Any director who tenders his or her resignation pursuant to the director resignation policy shall not participate in the Nominating & Corporate Governance Committee recommendation or Board action regarding whether to accept the tender of resignation. If a majority of the members of the Nominating & Corporate Governance Committee did not receive the affirmative vote of a majority of the votes cast at the same election, then all the directors who are "independent" under the listing standards of the New York Stock Exchange and who received the affirmative vote of a majority of the votes cast shall appoint a committee amongst themselves to consider the resignation tenders and recommend to the Board whether to accept them.

This committee may, but need not, consist of all of the independent directors who received the affirmative vote of a majority of the votes cast. The director resignation policy is contained in our Corporate Governance Guidelines, which are available on our website at www.firsthorizon.com (click on "Investor Relations," then "Corporate Governance," and then "Governance Documents").

Independence & Categorical Standards

Independence

Our common stock is listed on the New York Stock Exchange. The NYSE listing standards require a majority of our directors and all of the members of the Compensation Committee, the Nominating & Corporate Governance Committee and the Audit Committee of the Board of Directors to be independent as defined in the listing standards. Under these standards, our Board of Directors is required to determine affirmatively that a director has no material relationship with the company for that director to qualify as independent. In order to assist in making independence determinations, the Board, upon the recommendation of the Nominating & Corporate Governance Committee, has adopted the categorical standards set forth below. In making its independence determinations, each of the Board and the Nominating & Corporate Governance Committee considered the relationships between each director and the company, including those that fall within the categorical standards. In addition, the NYSE listing standards require that the Board specifically consider certain factors in determining the independence of any director who will serve on the Compensation Committee. These factors are described under the heading "The Compensation Committee—In General" below in this proxy statement. Our Board specifically considered such factors in making the

independence determinations for all of our directors, including those who serve on the Compensation Committee.

Based on its review and the application of the categorical standards, the Board, upon the recommendation of the Nominating & Corporate Governance Committee, determined that all ten of our current non-employee directors (Messrs. Compton, Emkes, Gilchrist, Martin, Niswonger, Reed, Subramaniam and Yancy and Mmes. Palmer and Stewart) are independent under the NYSE listing standards and that Vicky B. Gregg, who served on our Board until April 2016, was independent under the NYSE listing standards during the time she served as a director. The Nominating & Corporate Governance Committee and the Board determined that all transactions and relationships with each director identified above as independent fell within our categorical standards. Mr. Jordan, as our Chief Executive Officer, is not independent.

The categorical standards established by the Board, which were last revised in 2010, are set forth below and are also available on our website at www.firsthorizon.com (click on "Investor Relations," then "Corporate Governance," and then "Governance Documents").

Director Transactions by Category or Type

With respect to each director who is identified above as independent under the NYSE listing standards, the Board considered the following types or categories of transactions, relationships or arrangements in determining the director's independence under the NYSE standards and our categorical standards.

- Provision by the company, in the ordinary course of business and on substantially the same terms and conditions as those prevailing at the time for
comparable transactions with non-affiliated persons, of the following banking and financial services and services incidental thereto to directors, their immediate family members and/or to entities with which directors or their immediate family members are affiliated: deposit accounts (all directors except Mr. Gilchrist and Ms. Stewart); treasury management products (Messrs. Compton, Martin, Niswonger, Subramaniam, and Yancy); loans (including mortgage loans), letters of credit, guaranties,

credit cards and/or other lines of credit (Messrs. Martin, Niswonger, Reed, Subramaniam and Yancy and Mmes. Gregg and Palmer); interest rate swaps (Mr. Martin); investment management (Mr. Niswonger); broker/dealer services (Messrs. Emkes, Martin, Niswonger, Reed and Yancy); financial planning (Mr. Reed); capital markets (Mr. Subramaniam); trust services (Messrs. Compton and Niswonger); insurance brokerage (Messrs. Niswonger, Reed and Yancy); safe deposit boxes (Messrs. Martin and Niswonger and Ms. Gregg); paycard services (Mr. Yancy); purchasing card services (Mr. Niswonger) and currency exchange (Messrs. Compton and Martin).

- Provision by an entity affiliated with a director or his or her immediate family member, in the ordinary course of business and on substantially the same terms and conditions as those prevailing at the time for comparable transactions with non-affiliated persons, of the following products and services to the company: package delivery and print services (Mr. Subramaniam); hotel lodging for business travel by employees of the company (Messrs. Niswonger and Reed); venues for business development and for holding seminars and other corporate functions (Messrs. Niswonger and Reed); restaurant meals and sundries for business purposes (Messrs. Martin and Reed).

- Charitable contributions by the company or the First Horizon Foundation to charitable organizations with which a director or immediate family member is affiliated (all directors except Ms. Stewart and Mr. Reed).

- Employment by the company in a non-executive position of an immediate family member of a director (Mr. Yancy).

Categorical Standards

Each of the following relationships between the Corporation (as defined below) and its subsidiaries, on the one hand, and a director, an immediate family member of a director, or a company or other entity as to which the director or an immediate family member is a director, executive officer, employee or shareholder (or holds a similar position), on the other hand, will be deemed to be immaterial and therefore will not preclude a determination by the Board of Directors that the director is independent for purposes of the NYSE listing standards:

1. Depository and other banking and financial services relationships (excluding extensions of credit which are covered in paragraph 2), including transfer agent, registrar, indenture trustee, other trust and fiduciary services, personal banking, capital markets, investment banking, equity research, asset management, investment management, custodian, securities brokerage, financial planning, cash management, insurance brokerage, broker/ dealer, express processing, merchant processing, bill payment processing, check clearing, credit card and other similar services, provided that the relationship is in the ordinary course of business and on substantially the same terms and conditions as those prevailing at the time for comparable transactions with non-affiliated persons.

2. An extension of credit, provided that, at the time of the initial approval of the extension of credit as to (1), (2) and (3), (1) such extension of credit was in the ordinary course of business, (2) such extension of credit was made in compliance with applicable law, including Regulation O of the Federal Reserve, Section 23A and 23B of the Federal Reserve Act and Section 13(k) of the Securities and Exchange Act of 1934, (3) such extension of credit was on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons, and (4) the extension of credit has not been placed on non-accrual status.

3. Contributions (other than mandatory matching contributions) made by the Corporation or any of its subsidiaries or First Horizon Foundation to a charitable organization as to which the director is an executive officer, director, or

trustee or holds a similar position or as to which an immediate family member of the director is an executive officer; provided that the amount of the contributions to the charitable organization in a fiscal year does not exceed the greater of $500,000 or 2% of the charitable organization's consolidated gross revenue (based on the charitable organization's latest available income statement).

4. Vendor or other business relationships (excluding banking and financial services relationships and extensions of credit covered by paragraph 1 or 2 above), provided that the relationship is in the ordinary course of business and on substantially the same terms and conditions as those prevailing at the time for comparable transactions with non-affiliated persons.

11

5. All compensation and benefits provided to non-employee directors for service as a director.

6. All compensation and benefits provided in the ordinary course of business to an immediate family member of a director for services to the Corporation or any of its subsidiaries as long as such immediate family member is compensated comparably to similarly situated employees and is not an executive officer of the Corporation or based on salary and bonus within the top 1,000 most highly compensated employees of the Corporation.

Excluded from relationships considered by the Board is any relationship (except contributions included in category 3) between the Corporation and its subsidiaries, on the one hand, and a company or other entity as to which the director or an immediate family member is a director or, in the case of an immediate family member, an employee (but not an executive officer or significant shareholder), on other other hand.

The fact that a particular relationship or transaction is not addressed by these standards or exceeds the thresholds in these standards does not create a presumption that the director is or is not independent.

The following definitions apply to the categorical standards listed above:

“Corporation” means First Horizon National Corporation and its consolidated subsidiaries.

“Executive Officer” means an entity’s president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice president of the entity in charge of a principal business unit, division or function, any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the entity.

“Immediate family members” of a director means the director’s spouse, parents, children, siblings, mother-in-law, father-in-law, sons-in-law, daughters-in-law, brothers-in-law, sisters-in-law and anyone (other than domestic employees) who shares the director’s home.

“Significant shareholder” means a passive investor [meaning a person who is not in control of the entity] who beneficially owns more than 10% of the outstanding equity, partnership or membership interests of an entity. “Beneficial ownership” will be determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934.

Board Leadership Structure & Role in Risk Oversight

Leadership Structure

First Horizon’s Board leadership structure has evolved significantly over the years. Prior to 2007, the Chairman of the Board and Chief Executive Officer roles were held by the same individual (except for two transition periods relating to CEO succession). In 2007, the Board made certain governance changes in order to facilitate the implementation of strategic changes it was then initiating, including the appointment of a new CEO and of a separate individual as the Chairman of the Board. Under the Bylaws, the position of Chairman of the Board was at that time an executive officer position, but in 2009, the Board adopted amendments to the Bylaws that made the position of Chairman of the Board a non-officer position. In 2012, the Board elected Mr. Jordan, our President and CEO, as Chairman of the Board as well.

Under First Horizon's current Bylaws, the Chairman of the Board presides at all meetings of the shareholders and of the Board (except, with respect to meetings of the Board, as the Board may otherwise determine) and has the powers and

performs the duties as are normally incident to the position and as may be assigned by the Board. The Chief Executive Officer is responsible for carrying out the orders of and the resolutions and policies adopted by the Board, has general management of the business of the company and exercises general supervision over all of its affairs.

Mr. Reed, who is independent under the listing standards of the NYSE, is currently serving as Lead Director for the Board. The Lead Director's responsibilities include, among other things, supporting the Chairman of the Board in developing (in conjunction with the Corporate Secretary) the agenda for each Board meeting and in defining the scope, quality, quantity and timeliness of the flow of information between management and the Board; presiding (or, if he cannot be in attendance, designating another independent director to preside) at executive sessions of the Board; taking any actions he deems necessary or appropriate in connection with the Board and committee self-evaluation process (including contacting each director individually to obtain additional input on Board and committee effectiveness, if he deems appropriate); receiving reports from directors who have concerns about another director's performance pursuant to our process for individual director performance evaluations; and receiving communications from shareholders pursuant to our process for communications with the Board.

We believe that our current board leadership structure, with a combined CEO and Chairman position and with a separate Lead Director who is independent under the NYSE listing standards and has the principal duties specified in the Corporate Governance Guidelines, is most appropriate for our company at this time. We believe that combining the roles of CEO and Chairman facilitates our prudent management of the company in the current challenging economic and regulatory environment we face. Holding both roles best positions Mr. Jordan as CEO and Chairman to be aware of major issues facing the company on a day-to-day and long-term basis and to identify key risks and developments facing the company that should be brought to the Board's attention. The combined role also provides a single point of leadership for the company so that the company maintains a unified message and strategic direction.

The combined CEO/Chairman position is counterbalanced by our strong Lead Director position, currently held by Mr. Reed, who is also chair of the Executive & Risk Committee of the Board. The Lead Director, who has the responsibilities described above, provides an independent voice on issues facing the company and ensures that key issues are brought to the Board's attention. The Board and its committees also regularly hold executive sessions with no members of management present, thereby providing an opportunity for the independent directors to discuss their views freely; the executive sessions of the Board are generally presided over by the Lead Director (or his designee, if he cannot attend). All four regular meetings of the Board in 2016 concluded with such an executive session. The Board itself has a high degree of independence, with all ten of the non-employee directors qualifying as independent under the NYSE listing standards. In addition, the Board values the fresh perspectives brought by new directors: over the past six years, we have added five new directors to our Board.

We recognize that different board leadership structures may be appropriate for First Horizon at different times and in different situations. As part of our Board self-evaluation process, the Board annually evaluates the company's leadership structure to ensure that it provides the most appropriate structure. As stated in our Corporate Governance Guidelines, the Board is free to select its Chairman and First Horizon's Chief Executive Officer in the manner it considers in the best interests of the company at any given point in time. The Board has separated the roles of Chairman and CEO in the past and will consider doing so in the future should circumstances arise that make such separation appropriate.

Board Role in Risk Oversight

As stated in our Corporate Governance Guidelines, oversight of risk management is central to the role of the Board. Our risk management processes are reflected in a Board policy on risk management governance and in a Board statement of strategic objectives and risk appetite. The policy delegates primary responsibility for enterprise risk management oversight to the Executive & Risk Committee. The role of that Committee, as well as that of the Audit, Compensation, Information Technology and Trust Committees, is outlined below. Each of these committees and the full Board receive regular reports from management regarding the company's risks, and each committee reports regularly to the full Board concerning risk.

Executive & Risk Committee. The Executive & Risk Committee's charter authorizes and directs the Committee to assist the Board in its oversight of (i) the establishment and operation of our enterprise risk management framework, including

policies and procedures establishing risk management governance, risk management procedures, risk control infrastructure, and processes and systems for implementing and monitoring compliance with the framework with respect to the management of credit, market, operational, liquidity, interest rate sensitivity, capital and equity investment risks, including emerging risks, (ii) the adoption, implementation and periodic review of significant risk management and compliance policies and (iii) our risk appetite statement. In fulfilling its risk responsibilities, the Board delegated the following duties to the Committee: to review periodically and recommend to the Board the risk appetite parameters to be employed by management in operating the company; to receive information on our business practices, policies and procedures related to the risks listed above; to monitor results to ensure alignment with First Horizon's risk appetite; to review periodic risk and compliance reports from the Chief Risk Officer and the Chief Credit Officer, including reports on major risk exposures and steps taken to monitor, mitigate and control such exposures; to review periodically with management regulatory correspondence and actions; to review and approve First Horizon's stress testing program and results; and to establish (or recommend to the Board the establishment of) risk management and compliance policies and periodically review such policies, as appropriate. The Committee's charter specifically states that the Committee may meet separately in executive session with the Chief Risk Officer as often as the Committee deems necessary or appropriate.

In connection with its credit risk responsibilities, the Committee oversees First Horizon's independent Credit Assurance Services department. The Committee charter requires the Committee to advise the Chief Audit Executive (who has responsibility for the Credit Assurance Services department) that he or she is expected to provide the Committee summaries of and, as appropriate, significant reports to management prepared by the Credit Assurance Services department and management's responses thereto; approve the department's Annual Review Plan and schedule of activities; meet quarterly with the Chief Audit Executive in separate executive session to discuss any matters that the Committee or the Chief Audit Executive believes should be discussed privately; and review the Annual Credit Assurance Services department Statement of Independence.

Under Federal Reserve regulations that became effective in 2015, the company must have a risk committee that is chaired by a director who is independent as defined in those regulations and that has at least one member with "experience in identifying, assessing and managing risk exposures of large, complex firms." The Executive & Risk Committee meets those requirements and serves as the risk committee for purposes of the Federal Reserve regulations.

Audit Committee. Other Board committees continue to play a role in First Horizon's risk management processes as well. In accordance with the NYSE listing standards and its charter, the Audit Committee, which formerly had primary responsibility for oversight of risk management, retains an oversight role in that area, including receiving reports from the Chief Audit Executive regarding risk governance, risk assessment and risk management, the adequacy of the company's policies and compliance with legal and regulatory requirements. Pursuant to its charter, the Audit Committee also reviews employee complaints or material reports or inquiries received from regulators or government agencies and

management's responses; meets periodically with the company's Chief Risk Officer to discuss any risk and compliance matters that may have a material effect on the company's financial statements or internal controls; discusses any significant compliance issues raised in reports or inquiries received from regulators or government agencies; reviews periodic reports regarding the Compliance and Ethics Program on the effectiveness of that program; and discusses with the General Counsel pending and threatened claims that may have a material impact on the financial statements. The Bank's Trust Audit Committee carries out a risk oversight role with respect to the fiduciary activities of the Bank. The Committee is charged with ensuring that suitable audits (by internal or external auditors) of all significant Bank fiduciary activities are made either annually or on a continuous basis for the purpose of ascertaining whether the Trust Division is being administered in accordance with applicable law, regulation and sound fiduciary principles.

Compensation Committee. The Compensation Committee is chiefly responsible for compensation-related risks. The charter of the Committee requires the Committee to oversee our compliance with all applicable laws and regulations relating to (i) appropriate management of the risks associated with incentive compensation programs or arrangements or (ii) public, regulatory, or other reporting associated with such risks, programs or arrangements. Additional information about the Committee's role in risk management is included under the heading "The Compensation Committee—Compensation Risk" on page 20.

Information Technology Committee. The purposes of the Information Technology Committee are (1) to assist management in its understanding of information technology trends, its development and maintenance of an information technology strategy, its management of major information technology investments, and its identification and assessment of information technology threats, and (2) to assist the Board in its oversight of information technology matters. It is responsible for reviewing strategic information technology threats and First Horizon's information technology risk profile.

Trust Committee. The Trust Committee is responsible for overseeing the fiduciary activities of the Bank, including risks arising in connection with such activities. The Trust Committee receives reports from management of the Trust Division and any other units operating pursuant to the fiduciary powers of the Bank regarding fiduciary account records and the investment and distribution of fiduciary account funds.

Board Committees

Committee Charters & Committee Composition

The Board has five standing committees: the Audit Committee, the Compensation Committee, the Executive & Risk Committee, the Information Technology Committee and the Nominating & Corporate Governance Committee. The charter of each of these committees is currently available on our website at www.firsthorizon.com (click on "Investor Relations," then "Corporate Governance," and then "Governance Documents"). Paper copies are available to shareholders upon request to the Corporate Secretary. The Audit Committee, the Compensation Committee, and the Nominating & Corporate Governance Committee are each

composed of directors who are independent, as defined above under the heading "Independence & Categorical Standards" beginning on page 10. The chair of the Executive & Risk Committee is also independent, as defined by the Federal Reserve regulations that govern risk committees. The current membership of each of the Board's standing committees is set forth in the table below. Membership and chairmanship continued during the entire period from January 1, 2016 until the filing of this proxy statement unless otherwise indicated in the notes following the table.

Audit Committee	**Compensation Committee**	**Executive & Risk Committee(7)**	**Information Technology Committee**	**Nominating & Corporate Governance Committee**
Mr. Compton	Mr. Compton	Mr. Compton(3)	Mr. Emkes(5)	Mr. Compton (chair)
Mr. Emkes (chair)	Mr. Martin	Mr. Gilchrist	Mr. Gilchrist	Mr. Gilchrist
Mr. Gilchrist	Ms. Palmer (chair)(2)	Mr. Jordan	Ms. Stewart (chair)(6)	Mr. Martin
Ms. Stewart	Mr. Reed(4)	Mr. Niswonger	Mr. Subramaniam(1)	Mr. Niswonger
Mr. Subramaniam(1)		Ms. Palmer		Mr. Subramaniam(1)
Mr. Yancy		Mr. Reed (chair)(4)		

(1) Mr. Subramaniam became a director and member of these committees in July 2016.
(2) Ms. Palmer became the chair of the Compensation Committee in April 2016.
(3) Mr. Compton became a member of the Executive & Risk Committee in April 2016. He served as a member of the Information Technology Committee until April 2016.
(4) Mr. Reed became the chair of the Executive & Risk Committee in April 2016. He served as chair of the Compensation Committee until April 2016.
(5) Mr. Emkes became a member of the Information Technology Committee in April 2016.
(6) Ms. Stewart became the chair of the Information Technology Committee in January 2016.
(7) Mr. Martin served as the chair of the Executive & Risk Committee until April 2016.

Mr. Yancy also serves as chair of the Trust Committee, a standing committee of the Bank on which Ms. Stewart and Mr. Niswonger also serve. Mr. Emkes is the chair of the Trust Audit Committee, a standing committee of the Bank on which all the other members of the Audit Committee listed above (including, beginning in April 2016, Ms. Stewart, and, beginning in January 2017, Mr. Subramaniam) also serve. Vicky B. Gregg, who served on our Board of Directors until April 2016, was a member of the Audit and Trust Audit Committees and the Trust Committee until her departure from the Board.

The Audit Committee

Overview

The Audit Committee was established by our Board of Directors and operates under a written charter that was last amended in 2014. In 2016, the Committee met eight times for the principal purpose of executing its responsibilities under the Committee's charter, and seven of those meetings

concluded with an executive session during which management was not present.

Subject to the limitations and provisions of its charter, the Committee assists our Board in its oversight of our accounting and financial reporting principles and policies, internal controls and procedures, the integrity of our financial statements, our compliance with legal and regulatory requirements, the independent auditor's qualifications and independence, and the performance of the independent auditor and our internal audit function. The Committee is directly responsible for the appointment (subject, if applicable, to shareholder ratification), retention, compensation and termination of the independent auditor as well as for overseeing the work of and evaluating the independent auditor and its independence. The members of the Committee are themselves independent, as that term is defined in the NYSE listing standards (described above), and meet the additional independence requirements prescribed by Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended, and the rules of the SEC promulgated thereunder. In addition, the Board of Directors has determined that all the members of the Committee are financially literate as required by the NYSE listing standards. The Audit Committee's Report is included below.

Audit Committee Financial Expert

The Board of Directors has determined that Mark A. Emkes (chair of the Audit Committee) is an audit committee financial expert, as that term is defined in Item 407(d)(5) of SEC Regulation S-K. Mr. Emkes received his Bachelor of Arts in Economics from DePauw University and his Masters of Business Administration in International Management from the Thunderbird School of Global Management. Over the course of his career, Mr. Emkes served in various positions with Tokyo-based Bridgestone Corporation, including as President and Managing Director of Bridgestone Firestone Mexico and of Bridgestone Firestone Brazil, President of Bridgestone Latin America, and Chairman and CEO of Bridgestone North America.

In each of these positions, he actively supervised the divisional chief financial officer, who reported directly to him, and he reviewed financial results regularly. His service with Bridgestone culminated in his position as Chairman, Chief Executive Officer and President of Bridgestone Americas, Inc., a company with approximately $12 billion in annual revenue, and as a director of its parent company, Bridgestone Corporation. As CEO of Bridgestone Americas, Inc., Mr. Emkes was responsible for the financial statements of the subsidiary, and he actively supervised the CFO, regularly reviewing results in detail and discussing with the CFO issues relating to the subsidiary's financial statements, including issues relating to its estimates, accruals and reserves. He annually signed a certificate for Bridgestone Corporation in connection with the certification process for Japan's version of the Sarbanes-Oxley Act and a management representation letter in connection with the audit of the financial results of Bridgestone Corporation (the financial statements of which were audited in accordance with generally accepted accounting principles). For part of Mr. Emkes's tenure at Bridgestone Americas, the internal audit division reported to him. Most recently, Mr. Emkes served as the Commissioner of the Department of Finance and Administration of the State of Tennessee, a position he retired from in May 2013. Mr. Emkes has served on First Horizon's Audit Committee since 2008.

Independence of Audit Committee Financial Expert. Mr. Emkes meets in all respects the independence requirements of the NYSE and Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended, and the rules of the SEC promulgated thereunder.

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings by reference, including this proxy statement, in whole or in part, the following Audit Committee Report and the statements regarding members of the Committee who are not independent (if any) shall not be incorporated by reference into any *such filings.*

Audit Committee Report

The roles of the Audit Committee (“Committee”) are (1) to assist First Horizon’s Board of Directors in its oversight of (a) the company’s accounting and financial reporting principles and policies and internal controls and procedures, (b) the integrity of its financial statements, (c) its compliance with legal and regulatory requirements, (d) the independent auditor’s qualifications and independence, and (e) the performance of the independent auditor and internal audit function; and (2) to prepare this report to be included in First

Horizon’s annual proxy statement pursuant to the proxy rules of the SEC. The Committee operates pursuant to a charter that was last amended and restated by the Board in 2014. As set forth in the Committee’s charter, management of First Horizon is responsible for preparation, presentation and integrity of the company’s financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures to provide for compliance with accounting standards and applicable laws and regulations, and the internal auditor is responsible for testing such internal controls and procedures. The independent auditor is responsible for planning and carrying out audits of First Horizon's annual financial statements and effectiveness of internal control over financial reporting, reviews of First Horizon's quarterly financial statements prior to the filing of each quarterly report on Form 10-Q and certain other procedures.

In the performance of its oversight function, the Committee has considered and discussed the audited financial statements with management and the independent auditors. The Committee has discussed with the Chief Executive Officer and Chief Financial Officer their respective certifications that were included in First Horizon's Annual Report on Form 10-K for the year ended December 31, 2016. The Committee has also discussed with the independent auditors the matters required to be discussed by Auditing Standard No. 1301, *Communications with Audit Committees,* issued by the Public Company Accounting Oversight Board (formerly the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards,* Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T). Finally, the Committee has received the written disclosures and the letter from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, has adopted an audit and non-audit services pre-approval policy and considered whether the provision of non-audit services by the independent auditors to First Horizon is compatible with maintaining the auditor's independence and has discussed with the auditors the auditors' independence. At each of its regular quarterly meetings, the Committee is scheduled to meet, in separate executive sessions with no members of management present, with both the independent auditors and the internal auditor to

discuss any matters that the Committee in its discretion deems appropriate.

While the Board of Directors has determined that each member of the Audit Committee has the broad level of general financial experience required to serve on the Committee and that Mr. Emkes is an audit committee financial expert as that term is defined in Item 407(d)(5) of Regulation S-K, none of the members of the Committee currently devotes specific attention to the narrower fields of auditing or accounting or is professionally engaged in the practice of auditing or accounting, nor are they performing the functions of auditors or accountants, nor are they experts in respect of auditor independence. Members of the Committee rely without independent verification on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Committee's considerations and discussions referred to above do not assure that the audit of First Horizon's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that First Horizon's auditors are in fact "independent."

Based upon the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Committee referred to above and in the Committee's charter, the Committee recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC.

Submitted by the Audit Committee of our Board of Directors.

Audit Committee

Mark A. Emkes, Chair

John C. Compton

Corydon J. Gilchrist

Cecelia D. Stewart

Rajesh Subramaniam

Luke Yancy III

17

The Compensation Committee

In General

The Compensation Committee operates under a written charter that was last amended and restated by the Board of Directors in July 2014. The purposes of the Compensation Committee are (1) to discharge the Board's responsibilities relating to the compensation of our executive officers, (2) to produce an annual report on executive compensation for inclusion in our proxy statement, in accordance with the rules and regulations of the SEC [the current report is set forth below], (3) to identify and recommend to the Board individuals for appointment as officers, (4) to evaluate our management, and (5) to carry out certain other duties as set forth in the Committee's charter.

The members of the Committee are independent, as that term is defined in the NYSE listing standards (described above), and meet the additional independence requirements that specifically apply to Compensation Committee members as set forth in the listing standards (as prescribed by Section 10C of the Securities Exchange Act of 1934, as amended, and the rules of the SEC promulgated thereunder). In affirmatively determining the independence of all of the directors (other than Mr. Jordan), including those who serve on the Committee, the Board has considered all factors specifically relevant to determining whether any of those directors has a relationship to the company which is material to that director's ability to be independent from management in connection with the duties of a Committee member, including, but not limited to,

the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the company to such director, and whether such director is affiliated with First Horizon, a subsidiary of First Horizon, or an affiliate of a subsidiary of First Horizon.

Most of our executive compensation plans specify that they will be administered by a committee. The Committee's charter provides that the Committee will administer plan-committee functions under our various executive-level compensation plans. Under the charter, at least two members of the Committee must be "outside directors" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, and at least two members of the Committee must be "non-employee directors" for purposes of Section 16 of the Securities Exchange Act of 1934. Many of our plans have similar provisions concerning their respective plan committees. The charter stipulates that if a Committee member is disqualified under one or the other of those tests, then that member must recuse him- or herself from participating in decisions impacted by the relevant test. In that situation, the remaining members would constitute the Committee for that action. On occasion, in connection with a specific action, a Committee member may feel that his or her qualification under one of those tests may be in doubt for some reason; in that case, the member may elect recusal to avoid any risk of possible disqualification.

Processes & Procedures Regarding Executive & Director Compensation

The Committee's Authority

The charter of the Compensation Committee provides that the Committee has the authority to review and approve corporate goals and objectives relevant to the compensation of the CEO, to evaluate the performance of the CEO in light of those goals and objectives, to set the CEO's compensation level based on this evaluation, and to fix the compensation, including bonus and other compensation and any severance or similar termination payments, of executive officers. The Committee also has the authority, pursuant to its charter, to make recommendations to the Board concerning the adoption or amendment of employee benefit plans, management compensation plans, incentive compensation plans and equity-based plans, including plans applicable to executive officers, and to make

recommendations to the Board concerning director compensation. The charter also provides that the Committee will oversee the company's compliance with all applicable laws and regulations relating to (1) appropriate management of the risks associated with incentive compensation programs or arrangements, (2) the compensation of the company's executive officers and (3) any reporting associated with either. The Committee may not delegate any of the substantive authority described in this paragraph related to executive and director compensation to any other persons. In 2016, the Committee met five times (and took action by written consent twice) for the principal purpose of executing its responsibilities under the Committee's charter; all five of the meetings concluded with an executive session during which management was not present.

Director Compensation

The Committee periodically conducts a review of our director compensation program. The last comprehensive review took place during early 2015. During each comprehensive review, the design and amount of director compensation is considered by management, and any changes are recommended to the Committee, either as a short list of alternatives or as single-item recommendations. In general, management uses a consultant in formulating many of its recommendations, both for advice in designing director compensation and as a source of peer-company data. (Additional information on the use of consultants in compensation matters is provided below.) Management also prepares various presentations, analyses, and other tools for the Committee to use in considering director compensation decisions. As a result of the most recent review process, several changes were made and took effect in April 2015. A complete description of our current director compensation program can be found under the heading "Director Compensation" beginning on page 71 of this proxy statement.

Executive Compensation

The Committee determines the CEO's salary and bonus in executive session independent of management, generally on an annual basis. That determination is based on a review of the CEO's personal plan results for the prior year, along with peer CEO salary data provided by management's compensation consultant as well as input from the Committee's independent compensation consultant. The CEO participates in establishing his personal plan, but otherwise is not involved in the determination of his own salary.

Our CEO recommends to the Committee salary levels for the executive officers other than himself. Other compensation matters (bonus, equity awards, etc.) involving executives are reviewed by management, including the CEO, which then makes recommendations to the Committee, either as a short list of alternatives or as single-item recommendations. Management uses a consultant in formulating certain of its recommendations, both for advice and as a source of peer-company data. Management also prepares various presentations, analyses, forecasts, and other tools for the Committee to use in considering compensation decisions during the year. The Committee's independent consultant reviews all proposals and makes recommendations to the Committee.

Benefit Programs and Plans

Management monitors and considers benefit programs used by other companies, or needed within our company, to attract and retain key employees. Recommendations are presented by management to the Committee for review and discussion. The CEO ultimately oversees these management processes. New benefit plans, or significant amendments to existing plans, typically are considered by the full Board based on recommendations from the Committee. Enrollment and other administrative actions associated with the benefit plans are handled mainly through third party vendors in accordance with the terms in the Board-approved plans. If executive-level exceptions are required for administration of the plans, such as approval of an early retirement, management generally reviews the facts of the situation and provides a recommendation to the Committee for approval.

Use of Consultants

Management uses a national compensation consulting firm to provide advice with respect to executive and director compensation matters. Management also uses a number of other specialist firms to provide data relevant to specific needs such as funding for non-qualified deferred compensation and any special compensation arrangements that are unique to specific business units such as the capital markets industry. The consultants provide competitive data/trends, keep management informed of best practices and work with management to develop programs that permit the company to attract and retain the talent needed.

In 2016, management continued its engagement of McLagan as its primary advisor for executive and director compensation matters. Among other things, management directed McLagan to provide objective advice to management, the Committee and the Board on executive and director compensation, to provide expertise in executive and director compensation design, market practices in our industry and data to support recommendations, and to ensure timely reports to management and the Committee on all critical accounting, tax, securities law and market developments and trends relating to executive and director compensation. In addition, management engages nationally-recognized law firms as appropriate to provide advice on compliance with new laws, administration of stock plans, and compensation-related agreements and arrangements. Management also engages other advisers from time to time to provide expertise in executive and director compensation matters.

In 2016, the Compensation Committee continued its engagement of Frederic W. Cook & Co., Inc. (“FW Cook”) to provide it with independent analysis and advice on executive compensation-related matters. Among other things, FW Cook assists the Committee in its reviews of compensation program actions recommended by management, reviewing the chosen peer group and survey data for competitive comparisons and advising the Committee on best practices and ideas for board governance of executive compensation. FW Cook was specifically directed to undertake no work on behalf of management, and the firm has no other relationships with the company or management.

The NYSE listing standards require that all compensation consultants, legal counsel or other advisers to the Committee (which we collectively refer to as “advisers”) undergo an assessment of independence from management. The Committee must consider all factors relevant to each adviser’s independence from management, including the following:

- the provision of other services to the company by the person that employs the adviser;
- the amount of fees received from the company by the person that employs the adviser, as a percentage of the total revenue of the person that employs the adviser;
- the policies and procedures of the person that employs the adviser that are designed to prevent conflicts of interest;
- any business or personal relationship of the adviser with a member of the Committee;
- any stock of the company owned by the adviser; and
- any business or personal relationship of the adviser or the person employing the adviser with an executive officer of the company

The Committee has assessed the independence of FW Cook and all other advisers to the Committee as required by the NYSE listing standards, considering the factors described above, and has determined that FW Cook (and the individual adviser that FW Cook employs with respect to the engagement by the company) is independent of management. The Committee has also considered the factors listed above for determining whether the work performed by FW Cook has raised any conflict of interest and has concluded that no such conflict of interest exists.

Compensation Risk

Management and the Committee seek to balance several competing corporate goals: to motivate employees to achieve key goals through appropriate risk-taking; to avoid incenting inappropriate risk-taking and reinforce risk management practices; to promote retention in the face of increasing efforts by competitors to poach talent; and to comply with regulatory standards concerning compensation and risk management. At least once each year the Committee meets with management to review and assess risks associated with incentive and other compensation plans.

As part of the 2016 review, management conducted a risk and culture assessment of the top three tiers of management. This “tone from the top” assessment evaluated leadership performance and behaviors against risk management expectations. The results of this assessment, which management judged to be satisfactory, were reported to the Committee in 2016.

In 2016 senior management measured achievement using risk-adjusted return on capital and economic profit. These performance measures

adjust profit for risk and measure profit net of the cost of capital employed. This approach has been applied to individual business lines and products, among other things, and it discourages business activities which entail risk or capital usage disproportionate to expected profit and encourages activities whose profit is at least commensurate with risk and capital usage. Our focus on these metrics is intended to drive capital-efficient, risk-appropriate, and therefore superior performance over the long term. This focus is directly supportive of our risk management goals and practices.

Other risk management features employed in various performance and retention incentives include a qualitative risk assessment used in annual personal plan performance, which can directly impact annual bonus and salary decisions; use of a mandatory deferral feature for many incentives; forfeiture of equity awards for termination for cause and certain misconduct; clawback of previously-paid awards for certain types of misconduct; and corrective clawback for incentive awards if payment is based on erroneous data.

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings by reference, including this proxy statement, in whole or in part, the following Compensation Committee Report shall not be incorporated by reference into any such filings.

Compensation Committee Report

The Compensation Committee of our Board of Directors has reviewed and discussed with management, among other things, the section of this proxy statement captioned “Compensation Discussion & Analysis” beginning on page 40. Based on that review and discussion, the Compensation Committee recommended to our Board that the “Compensation Discussion & Analysis” section be included in this proxy statement.

Compensation Committee

Vicki R. Palmer, Chair

John C. Compton

R. Brad Martin

Colin V. Reed

The Executive & Risk Committee

The Executive & Risk Committee was established by our Board of Directors and operates under a written charter that was last amended and restated in 2015. The Committee met eight times during 2016.

The Board has delegated primary responsibility for enterprise risk management oversight to the Executive & Risk Committee. In connection with its credit risk responsibilities, the Committee oversees First Horizon’s independent Credit Assurance Services department. Additional information on the Committee’s risk-related duties is available under the heading “Board Role in Risk Oversight—

Executive & Risk Committee” beginning on page 13 above. As an executive committee, the Committee is authorized and empowered to exercise during the intervals between meetings of the Board all authority of the Board, except as prohibited by applicable law and provided that it may not approve acquisitions, divestitures or the entry into definitive agreements (not in the ordinary course of business) where the purchase or sale price or transaction amount exceeds $100 million. Also, no authority has been delegated to the Committee in its charter to approve any acquisition involving the issuance of our stock.

The Information Technology Committee

The Information Technology Committee was established in 2015 and operates under a written charter that was last amended in January 2016. The purposes of the Committee are (1) to assist management in its understanding of information technology trends, its development and maintenance of an information technology strategy, its management of major information technology investments, and its identification and assessment of information technology threats, and (2) to assist the Board in its oversight of information technology matters.

The Committee met four times in 2016 for the principal purpose of executing its responsibilities under its charter.

The Nominating & Corporate Governance Committee

In General

The Nominating & Corporate Governance Committee operates under a written charter that was last amended in 2014. The purposes of the Nominating & Corporate Governance Committee are (1) to identify and recommend to the Board individuals for nomination as members of the Board and its committees, (2) to develop and recommend to the Board a set of corporate governance principles applicable to the company, and (3) to oversee the evaluation of the Board and management. The Committee met four times in 2016 for the principal purpose of executing its responsibilities under its charter.

In 2016, a director search firm was retained to assist the Committee in assessing Board competencies and identifying potential director candidates.

Nominations of Directors; Consideration of Diversity in Identifying Director Nominees

With respect to the nominating process, the Nominating & Corporate Governance Committee discusses and evaluates possible candidates in detail and suggests individuals whose potential membership on the Board could be explored in greater depth. The Committee, with input from the Chairman of the Board, the Chief Executive Officer and the Lead Director, recommends new nominees for the position of independent director based on the following criteria:

- Personal qualities and characteristics, experience, accomplishments and reputation in the business community.
- Current knowledge and contacts in the communities in which the company does business and in the company's industry or other industries relevant to the company's business.
- Diversity of viewpoints, background, experience and other demographics.
- Ability and willingness to commit adequate time to Board and committee matters.
- The fit of the individual's skills and personality with those of other directors and potential directors in building a Board that is effective and responsive to its duties and responsibilities.

The Nominating & Corporate Governance Committee does not set specific, minimum qualifications that nominees must meet in order for the Committee to recommend them to the Board of

Directors, but rather believes that each nominee should be evaluated based on his or her individual merits, taking into account the needs of the company and the composition of the Board of Directors.

As described above and set forth in our Corporate Governance Guidelines, diversity, broadly defined to mean diversity of viewpoints, background, experience and other demographics, is one criterion on which the Committee bases its recommendations of new nominees for director positions. The inclusion of diversity in the listed criteria for director nominees reflects the Board's belief that diversity is important to the effective functioning of the Board. More generally, our Board-adopted Code of Business Conduct and Ethics reflects First Horizon's firm commitment to non-discrimination and equal opportunity for employees, customers and suppliers and to treatment of everyone without discrimination or harassment based on race, color, religion, sex, sexual orientation, gender identity, national origin, age, veteran status or disability. However, neither the Committee nor the Board has a formal policy with regard to the consideration of diversity in identifying director nominees.

Once a candidate is identified whom the Committee wants seriously to consider and move toward nomination, the Chairman and CEO and/or other directors as the Committee determines will enter into a discussion with that candidate.

Shareholder Recommendations of Director Nominees

The Nominating & Corporate Governance Committee will consider individuals recommended by shareholders as director nominees, and any such individual is given appropriate consideration in the same manner as individuals recommended by the Committee. Shareholders who wish to submit individuals for consideration by the Nominating & Corporate Governance Committee as director nominees may do so by submitting, in compliance with the procedures and along with the other information required by our Bylaws (as described below), a notice in writing that gives such individuals' names to the Corporate Secretary. Our Bylaws require that to be timely, a shareholder's notice must be delivered to or mailed and received at our principal executive offices not less than 90 days nor more than 120 days prior to the date of the meeting. However, if fewer than 100 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, a notice by a shareholder to be timely must be so delivered or received not later than the close of business on the 10th day

following the earlier of (i) the day on which such notice of the date of such meeting was mailed or (ii) the day on which such public disclosure was made. A shareholder's notice must state:

- the name, age, business address and residence address of the person whom the shareholder proposes to nominate; the principal occupation or employment of such person; the class and number of shares of First Horizon that are beneficially owned by such person on the date of the notice;
- any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected);

- the name and address, as they appear on our books, of the shareholder giving the notice and any other shareholders known by such shareholder to be supporting the proposed nominee; and

- the class and number of shares of our stock which are beneficially owned by the shareholder giving the notice on the date of the notice and by any other shareholders known by the shareholder giving the notice to be supporting the proposed nominee on the date of such Shareholder's notice.

Compensation Committee Interlocks & Insider Participation

Messrs. Compton, Martin and Reed and Ms. Palmer, all non-employee directors, served as members of the Board of Director's Compensation Committee during 2016. Refer to the table in "Corporate Governance and Board Matters—Composition of Board Committees" above for additional committee information. No interlocking relationships existed with respect to any of the members of the Committee.

Board & Committee Meeting Attendance

During 2016, the Board of Directors held four meetings (three of which took place over a period of two days). The Audit Committee held eight meetings, the Compensation Committee held five meetings and acted by written consent twice, the Executive & Risk Committee held eight meetings, the Information Technology Committee held four meetings, and the Nominating & Corporate Governance Committee held four meetings. The Trust Committee of the Bank's Board held three meetings. The average attendance at Board and committee meetings exceeded 94 percent. No incumbent director attended fewer than 75 percent of the meetings of the Board and the committees of the Board on which he or she served during 2016. As set forth in our Corporate Governance Guidelines, our directors are expected to make every effort to attend every meeting of First Horizon's shareholders. For the last 10 years, all of our directors have been in attendance at every annual meeting of shareholders, except for one director in 2012 and one director in 2014.

Executive Sessions of the Board

To ensure free and open discussion and communication among the non-management directors of the Board and its committees, our Corporate Governance Guidelines provide that the non-management directors will meet in regularly scheduled executive sessions and as often as the Board shall request, with no members of management present, and that if any non-management directors are not independent under NYSE listing standards, the independent, non-management directors will meet in executive session at least once a year. All of our non-management directors were independent during all of 2016, and during 2016, those independent, non-management directors met four times in executive session of the Board. The Lead Director presides (or, if he cannot be in attendance, designates another independent director to preside) at the executive sessions of the Board.

Communication with the Board of Directors

A shareholder who desires to communicate with the Board of Directors on matters other than director nominations should submit his or her communication in writing to the Lead Director, c/o Corporate Secretary, First Horizon National Corporation, 165 Madison Avenue, Memphis, Tennessee 38103, and identify himself or herself

as a shareholder. The Corporate Secretary will forward all communications to the Lead Director for a determination as to how to proceed. Other interested parties desiring to communicate with the Board of Directors should submit their communications in the same manner.

Approval, Monitoring & Ratification Procedures for Related Party Transactions

The Audit Committee of the Board has adopted procedures for the approval, monitoring, and ratification of transactions between First Horizon, on the one hand, and our directors, executive officers or 5% shareholders, their immediate family members, their affiliated entities and their immediate family members' affiliated entities, on the other hand. A copy of our procedures is available on our website at www.firsthorizon.com (click on "Investor Relations," then "Corporate Governance," and then "Governance Documents"). Our procedures require management to submit any proposed "related party transaction" (defined as a transaction that is required to be disclosed in our proxy statement pursuant to the requirements of Item 404(a) of Regulation S-K promulgated by the SEC) or amendment to an existing related party transaction to the Audit Committee for approval or ratification. In some cases, the matter may be determined by the chair of the Audit Committee. In considering whether to approve a given transaction, the Audit Committee (or chair) must consider:

- whether the terms of the related party transaction are fair to First Horizon and on terms at least as favorable as would apply if the other party was not, or did not have an affiliation with, a director or executive officer of First Horizon;
- whether First Horizon is currently engaged in other related party transactions with the related party at issue or other related parties of the same director or executive officer;
- whether there are demonstrable business reasons for First Horizon to enter into the related party transaction;
- whether the related party transaction would impair the independence of a director; and
- whether the related party transaction would present an improper conflict of interest for any director or executive officer of First Horizon, taking into account the size of the transaction, the overall financial position of the director or executive officer, the direct or indirect nature of the interest of the director or executive officer in the transaction, the ongoing nature of any proposed relationship, and any other factors the Audit Committee deems relevant.

Transactions with Related Persons

First Horizon, the Bank and the subsidiaries of each, as applicable, have entered into lending transactions and/or other banking or financial services transactions in the ordinary course of business with our executive officers, directors, nominees, their immediate family members and affiliated entities, and the persons of which we are aware that beneficially own more than five percent of our common stock, and we expect to have such transactions in the future. Such transactions were made in the ordinary course of business, were made on substantially the same terms, including

interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the company, and did not involve more than the normal risk of collectability or present other unfavorable features. We note that as a perquisite we offer all employees discounts on certain financial services (for example, no-fee domestic wire transfers). These discounts are available to our executive officers except in relation to credit extended at the time an executive officer is serving as such.

24

Stock Ownership Information

As of December 31, 2016, there were 5,448 shareholders of record of our common stock. To our knowledge, there were four persons who owned beneficially, as that term is defined by Rule 13d-3 of the Securities Exchange Act of 1934, more than five percent (5%) of our common stock as of December 31, 2016. Certain information concerning beneficial ownership of our common stock by those persons as of December 31, 2016 is set forth in the following table:

Security Ownership of Certain Beneficial Owners

Name and Address of Beneficial Owner*	**Amount and Nature of Beneficial Ownership**	**Percent of Class**
BlackRock, Inc	21,140,589	9.1%
Invesco Ltd	16,390,718	7.0%
T. Rowe Price Associates, Inc	21,277,754	9.1%
The Vanguard Group, Inc	18,197,011	7.8%

* Addresses appear in the text below.

BlackRock. The information in the table above with respect to BlackRock is based on information set forth in Schedule 13G/A, filed with the Securities and Exchange Commission on January 24, 2017 by BlackRock, Inc. on behalf of its subsidiaries BlackRock (Netherlands) B.V., BlackRock (Singapore) Limited, BlackRock Advisors (UK) Limited, BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management Schweiz AG, Blackrock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A., BlackRock International Limited, BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd, BlackRock Investment Management, LLC, BlackRock Japan Co Ltd and BlackRock Life Limited, 55 East 52nd Street, New York, NY 10022. According to this Schedule 13G, BlackRock has sole voting power with respect to 16,630,748 shares of our common stock and sole dispositive power with respect to 17,476,593 shares of our common stock.

Invesco. The information in the table above with respect to Invesco Ltd. ("Invesco") is based on information set forth in Amendment No. 1 to Schedule 13G filed with the Securities and Exchange Commission on February 7, 2017 by Invesco on behalf of its subsidiaries Invesco Advisers, Inc. and Invesco PowerShares Capital Management, LLC, 1555 Peachtree Street NE,

Suite 1800, Atlanta, Georgia 30309. According to this Schedule 13G, Invesco has sole voting power with respect to 15,186,962 shares of our common stock and sole dispositive power with respect to 16,390,718 shares of our common stock.

T. Rowe Price. The information in the table above with respect to T. Rowe Price Associates, Inc. (“TRP”) is based on information set forth in Amendment No. 8 to Schedule 13G, filed with the Securities and Exchange Commission on February 7, 2017 by TRP, 100 E. Pratt Street, Baltimore, Maryland 21202. According to this document, TRP has sole voting power with respect to 3,851,372 shares of our common stock and sole dispositive power with respect to 21,277,754 shares of our common stock.

Vanguard. The information in the table above with respect to The Vanguard Group, Inc. (“Vanguard”) is based on information set forth in Amendment No. 5 to Schedule 13G, filed with the Securities and Exchange Commission on February 10, 20167 by Vanguard, 100 Vanguard Boulevard, Malvern, Pennsylvania 19355. According to this Schedule 13G, Vanguard has sole voting power with respect to 139,075 shares of our common stock, shared voting power with respect to 23,542 shares of our common stock, shared dispositive power with respect to 150,725 shares of our common stock and sole dispositive power with respect to 18,046,286 shares of our common stock.

The table below sets forth certain information concerning beneficial ownership of our common stock by each director and nominee, each executive officer named in the Summary Compensation Table, and the directors and executive officers as a group. The information in the table is as of December 31, 2016 except as otherwise noted in the notes to the table.

Security Ownership of Management

Name of Beneficial Owner	**Title of Class, Amount and Nature of Beneficial Ownership(1)**				
	Depositary Shares	Percent of Class	Common Stock		Percent of Class
John C. Compton	—	*	69,967		*
Mark A. Emkes	—	*	39,815		*
Corydon J. Gilchrist	—	*	66,821		*
D. Bryan Jordan	—	*	976,853	(4)	*
Michael E. Kisber(2)	—	*	669,563	(4)	*
William C. Losch, III	—	*	327,972	(4)	*
R. Brad Martin	5,800	*	607,111	(3)(5)	*
Scott M. Niswonger	—	*	526,659		*
Vicki R. Palmer	—	*	94,531	(3)	*
David T. Popwell	—	*	347,541	(4)	*
Colin V. Reed	—	*	92,096	(3)	*
Cecelia D. Stewart	—	*	10,437		*
Rajesh Subramaniam	—	*	80		*
Charles T. Tuggle, Jr.	—	*	284,074	(4)	*
Luke Yancy III	—	*	44,715	(3)	*
Directors and Executive Officers as a Group (19 persons)	5,800	*	4,919,967	(4)	2.09%

* No current individual director, nominee or executive officer beneficially owns more than one percent (1%) of our outstanding common stock or depositary shares.

(1) The respective directors, nominees and officers have sole voting and investment powers with respect to all of such shares except as specified in notes (3) and (4).

The numbers of shares covered by stock options reported in the table have been adjusted proportionately to reflect the effects of dividends paid in common stock from October 1, 2008 through January 1, 2011.

Each depositary share represents a 1/4000th interest in a share of non-cumulative perpetual preferred stock, Series A, issued by First Horizon on January 31, 2013.

(2) The share balance for Mr. Kisber does not include 27,994 shares deferred prior to January 2005 under our stock option program and our restricted stock incentive plan, which at that time permitted participants to defer receipt of shares upon the exercise of options and receipt of shares prior to the lapsing of restrictions imposed on restricted stock awards, respectively. These shares are not currently issued and are not considered to be beneficially owned for purposes of Rule 13d-3, but are reflected in a deferral account on our books as phantom stock units or restricted stock units.

(3) Includes the following shares as to which the named non-employee directors have the right to acquire beneficial ownership through the exercise of stock options granted under our director plans, all of which are 100% vested or will have vested within 60 days of December 31, 2016: Mr. Martin—43,388; Ms. Palmer—50,645; and Mr. Yancy—10,048.

(4)

Includes the following shares of restricted stock with respect to which the named person or group has sole voting power but no investment power: Mr. Jordan—0; Mr. Kisber—0; Mr. Losch—11,064; Mr. Popwell—14,005; Mr. Tuggle— and the director and executive officer group—142,563. Includes the following shares as to which the named person or group has the right to acquire beneficial ownership through the exercise of stock options granted under our stock option plans, all of which are 100% vested or will have vested within 60 days of December 31, 2016: Mr. Jordan—375,529; Mr. Kisber—348,324; Mr. Losch—180,444; Mr. Popwell—139,503; Mr. Tuggle—110,969 and the dire and executive officer group—1,442,568. Also includes, with respect to Mr. Popwell, 23,895 restricted stock units that will have vested within 60 days of December 31, 2016. Also includes shares held at December 31, 2016 in 401(k) Savings Plan accounts.

(5) The number of shares of common stock for Mr. Martin includes 48,014 shares held by the R. Brad Martin Family Foundation.

Vote Item No. 1—Election of Directors

Overview. The Board of Directors is proposing for election all eleven of our current directors: Messrs. Compton, Emkes, Gilchrist, Jordan, Martin, Niswonger, Reed, Subramaniam and Yancy and Mmes. Palmer and Stewart, at the 2017 annual meeting, to hold office until the 2018 annual meeting of shareholders and until their successors are duly elected and qualified. Mr. Subramaniam was elected by the Board of Directors in July 2016. He was recommended as a nominee for a position on our Board by a third-party search firm. If any nominee proposed by the Board of Directors is unable to accept election, which the Board of Directors has no reason to anticipate, the persons named in the enclosed form of proxy will vote for the election of such other persons as directed by the Board, unless the Board decides to reduce the number of directors pursuant to the Bylaws.

Identification and Nomination of Candidates. The Board and the Nominating & Corporate Governance Committee regularly assess the composition of the Board as a whole and the contributions of each director. The Nominating & Corporate Governance Committee's charter assigns to that Committee the duty to identify individuals believed to be qualified to become Board members and to recommend to the Board the individuals to stand for election or reelection as directors. In nominating candidates, the Committee may take into consideration such factors as it deems appropriate, including personal qualities and characteristics, experience, accomplishments and reputation in the business community; current knowledge and contacts in the communities in which the company does business and in the company's industry or other industries relevant to the company's business; diversity of viewpoints, background, experience and other demographics; ability and willingness to commit adequate time to Board and committee matters; and the fit of the individual's skills and personality with those of other directors and potential directors in building a Board that is effective and responsive to its duties and responsibilities and the needs of the company.

Assessment of the Board's Composition. At each of its regularly scheduled meetings, the Nominating & Corporate Governance Committee reviews the composition of the Board as a whole, considering the mix of skills and experience that directors bring to the Board, and evaluates Board composition in light of the company's then-current business needs as well as applicable legal, regulatory and NYSE requirements. Among the areas considered by the Committee are each director's independence under the NYSE listing standards; experience, including experience as a public company officer or director; primary area of business expertise; geographical markets

experience; and projected retirement date. In accordance with the requirements of the National Bank Act and the company's focus on its core banking franchise in Tennessee, the Committee also considers the proportion of directors who reside in Tennessee (or within 100 miles of Memphis). In light of this review, the Committee assesses whether the Board has the necessary tools to perform its oversight functions effectively and recommends, as appropriate, new nominees for consideration by the Board. The Board, with oversight provided by the Committee, also conducts an annual self-evaluation that includes an evaluation of whether Board members have an appropriately broad and diverse range of experience and whether committee members have the right expertise, background and skills to be effective and responsive to their duties and responsibilities as committee members.

Individual Director Evaluations. The Nominating & Corporate Governance Committee also conducts annual individual director evaluations. To facilitate these evaluations, the Board has adopted a Statement of Expectations of Directors. The Statement of Expectations contains specific activities and conduct each director should engage in or adhere to and includes consideration of each director's background, expertise and skills. The Statement of Expectations is provided to each new director at the time of orientation and to all directors once a year. Each year, the Nominating & Corporate Governance Committee conducts evaluations against the Statement of Expectations of the performance of each non-employee director prior to determining whether to recommend him or her to the Board for renomination.

Board Experiences, Qualifications, Attributes and Skills. Set forth below are the particular experiences, qualifications, attributes or skills that led the Board to conclude that each nominee should serve as a director of First Horizon, as well as the age, current principal occupation (which has continued for at least five years unless otherwise indicated), name and principal business of the organization in which his or her occupation is carried on, directorships in other reporting companies (including those held in the past but not currently held), and year first elected to our Board. All of our directors are also directors of the Bank. Director committee appointments are disclosed below and in a table on page 15 in the "Corporate Governance and Board Matters—Committee Charters & Committee Composition" section of this proxy statement above.

Nominees for Director

John C. Compton

Partner at Clayton, Dubilier & Rice, LLC

Independent director since 2011

Age 55

Committees:
Audit, Compensation, Executive & Risk, Nominating & Corporate Governance (Chair), and the Bank's Trust Audit Committee

Mr. Compton is a Partner at Clayton, Dubilier & Rice, LLC, a New York-based private equity firm. Prior to January 2015, he was a private investor and consultant and served as an Operating Advisor to Clayton, Dubilier & Rice. He served as CEO of Pilot Flying J, Knoxville, Tennessee, a national operator of travel centers, until February 2013. Prior to September 2012, he served for twenty-nine years in various senior leadership positions with PepsiCo Inc., a global food, snack and beverage company, including Chief Executive Officer of PepsiCo Americas Foods, President and CEO of Quaker, Tropicana, Gatorade and CEO of PepsiCo North America, culminating in his service as President of PepsiCo.

Skills and Expertise:

- Leadership experience at a public company
- Experience in matters affecting public companies, including finance and accounting, employee matters, mergers and acquisitions, risk assessment,civic affairs, government relations, corporate governance, securities markets and compliance and similar matters
- Extensive experience in sales, marketing, operations and general management
- East Tennessee resident whose knowledge of the east Tennessee market fits well with our strategy of focusing on our core banking franchise in Tennessee

Other Current Public Company Board Service: US Foods Holdings Corp. (since 2015),

Prior Public Company Board Service: Pepsi Bottling Group (2008-2010)

Non-Profit Board Service: Serves on the board of two non-profit organizations.

Mark A. Emkes

Retired Commissioner, Department of Finance and Administration, State of Tennessee and retired Chairman, Chief Executive Officer and President, Bridgestone Americas, Inc.

Independent director since 2008

Age 64

Committees:

Audit (Chair), Information Technology and the Bank's Trust Audit Committee (Chair)

Audit Committee Financial Expert

Mr. Emkes retired in May 2013 as the Commissioner of the Department of Finance and Administration of the State of Tennessee, a position he had served in since January 2011. Prior to his service as Commissioner, he served as the Chairman, Chief Executive Officer and President of Bridgestone Americas, Inc. and as a director of its parent company, Tokyo-based Bridgestone Corporation, a worldwide tire and rubber manufacturer.

Skills and Expertise:

- Leadership experience at a large subsidiary of a public company
- Experience in governmental affairs
- Experience in finance and accounting, employee matters, mergers and acquisitions, risk assessment, civic affairs, government relations, corporate governance, securities markets and compliance and similar matters associated with leadership positions at public companies
- Knowledge of public company executive compensation and governance matters due to public company board service
- Nashville resident whose knowledge of the Nashville market fits well with our strategy of focusing on our core banking franchise in Tennessee

Other Current Public Company Board Service: Clarcor Inc. (since 2010), CoreCivic, Inc. (since 2014) and Greif, Inc. (since 2008)

Prior Public Company Board Service: Bridgestone Corporation (2004-2010)

Non-Profit Board Service: Serves on the board of a non-profit organization.

28

Corydon J. Gilchrist

Private investor and Chartered Financial Analyst

Independent director since 2012

Age 46

Committees:

Audit, Executive & Risk, Information Technology, Nominating & Corporate Governance, and the Bank's Trust Audit Committee

Mr. Gilchrist is a private investor and a Chartered Financial Analyst. From 2000 to 2011 he was a portfolio manager and partner at Marsico Capital Management. While at Marsico, Mr. Gilchrist was the sole portfolio manager for Marsico's 21st Century Fund and the lead portfolio manager for Marsico's Global Fund. Before joining Marsico, he was a senior analyst and portfolio manager covering emerging markets at The Principal Financial Group.

Skills and Expertise:

- Extensive expertise in macro and micro investment analysis
- Understanding of business value, business risk and strategic decision-making
- Experience analyzing various matters, including finance and accounting,securities markets, corporate governance, mergers and acquisitions, risk assessment, and government relations, that affect public companies

Non-Profit Board Service: Serves on the boards of two non-profit organizations.

D. Bryan Jordan

Chairman of the Board, President and Chief Executive Officer of First Horizon and the Bank

Mr. Jordan is Chairman of the Board, President and Chief Executive Officer of First Horizon and the Bank. He was elected Chairman of the Board of Directors in 2012 and has held the positions of President and Chief Executive Officer and director since 2008. Mr. Jordan was the Chief Financial Officer of First Horizon and the Bank from 2007 to 2008, and prior to that he served in various positions at Regions Financial Corporation and its subsidiary Regions Bank, including (beginning in 2002) as Chief Financial Officer. Prior to 2000, he held various finance and accounting related positions at Wachovia Corporation.

Skills and Expertise:

- Extensive experience in the banking and financial services industry

Chairman of the Board since 2012; director since 2008

- Experience in finance and accounting, employee matters, mergers and acquisitions, risk assessment, civic affairs, government relations, corporate governance, securities markets and compliance and similar matters associated with leadership positions at public companies

Age 55

- Knowledge of public company audit and governance matters due to public company board service

Other Current Public Company Board Service: AutoZone, Inc. (since 2013)

Committees:

Executive & Risk

Non-Profit Board Service: Serves on the boards of several non-profit organizations.

R. Brad Martin

Chairman of RBM Venture Company

Independent director since 1994

Age 65

Committees:

Compensation and Nominating & Corporate Governance

Mr. Martin is the Chairman of RBM Venture Company, Memphis, Tennessee, a private investment company. He served as interim president of The University of Memphis from 2013 to 2014. Mr. Martin was Chairman of the Board and Chief Executive Officer of Saks Incorporated, Birmingham, Alabama, a retail merchandising company, until his retirement in 2007. He had held the CEO position at Saks or its predecessor companies since 1989.

Skills and Expertise:

- Extensive experience in the retail merchandising industry
- Leadership experience at a public company
- Experience in matters affecting public companies, including finance and accounting, employee matters, mergers and acquisitions, risk assessment, civic affairs, government relations, corporate governance, securities markets and compliance and similar matters
- Knowledge of public company matters, including audit, executive compensation, governance and information technology matters, due to public company board service

Other Current Public Company Board Service: Chesapeake Energy Corporation (since 2012) (Chairman of the Board since October 2015) and FedEx Corporation (since 2011)

Prior Public Company Board Service: Dillards, Inc. (2008-2013), Ryman Hospitality Properties, Inc. (successor of Gaylord Entertainment Company) (2006-2009), lululemon athletica inc. (2007-2012), Ruby Tuesday, Inc. (2008-2011), and Harrah's Entertainment, Inc. (1996-2008)

Non-Profit Board Service: Serves on the boards of several non-profit organizations.

Scott M. Niswonger

Mr. Niswonger is the Chairman and founder of Landair Transport, Inc., a time-definite trucking, warehousing, and supply-chain management company. He previously served as Chief Executive Officer (until 2003) of Landair and as Chairman of the Board (until 2005)

Chairman and founder of Landair Transport, Inc.

Independent director since 2011

Age 69

Committees:

Executive & Risk, Nominating & Corporate Governance, and the Bank's Trust Committee

and Chief Executive Officer (until 2003) of Forward Air, Inc., which operated as one company with Landair until the two were separated into two public companies in 1998; Landair has since again become a private company.

Skills and Expertise:

- Leadership experience at two public companies
- Extensive experience in matters affecting both public and private companies, including sales, marketing and logistics, finance and accounting,employee matters, mergers and acquisitions, risk assessment, civic affairs and government relations, corporate governance and securities markets and compliance
- East Tennessee resident whose knowledge of the east Tennessee market fits well with our strategy of focusing on our core banking franchise in Tennessee

Prior Public Company Board Service: Landair Transport, Inc. (1998-2003) and Forward Air, Inc. (1998-2005)

Non-Profit Board Service: Serves on the boards of several non-profit organizations.

Vicki R. Palmer

President of The Palmer Group, LLC

Independent director since 1993

Age 63

Committees:

Compensation (Chair) and Executive & Risk

Ms. Palmer is the President of The Palmer Group, LLC, Atlanta, Georgia, a general consulting firm. Between 2004 and 2009, she served as Executive Vice President, Financial Services and Administration, Coca-Cola Enterprises Inc. ("CCE"), Atlanta, Georgia, a bottler of soft drink products. She was responsible for overseeing treasury, pension and retirement benefits, asset management, internal audit and risk management, was a member of CCE's Risk Committee, served on CCE's Senior Executive Committee and had oversight responsibility for CCE's enterprise-wide risk assessment process.

Skills and Expertise:

- Expertise in public company finance, risk management and administration
- Senior level policy-making experience at a public company
- Knowledge of public company audit and governance matters due to public company board service

Other Current Public Company Board Service: Haverty Furniture Companies Inc. (since 2001)

Non-Profit Board Service: Serves on the boards of several non-profit organizations.

Colin V. Reed

Chairman of the Board and Chief Executive Officer of Ryman Hospitality Properties, Inc.

Mr. Reed is the Chairman of the Board and Chief Executive Officer of Ryman Hospitality Properties, Inc. ("Ryman"), Nashville, Tennessee, a real estate investment trust. Ryman is the successor by merger to Gaylord Entertainment Company ("Gaylord"), a diversified hospitality and entertainment company whose conversion to a real estate investment trust and subsequent merger into Ryman was led by Mr. Reed. Mr. Reed was elected Chairman of the Board of Gaylord in 2005 and Chief Executive Officer in 2001.

Skills and Expertise:

- Leadership experience at a public company

Independent director since 2006 Lead Director	• Extensive experience in finance and accounting as well as employee matters, mergers and acquisitions, risk assessment, civic affairs, government relations, corporate governance, securities markets and compliance and similar matters associated with leadership positions at public companies
Age 69	• Knowledge of public company matters due to public company board service
	• Nashville resident whose knowledge of that market fits well with our strategy of focusing on our core banking franchise in Tennessee
Committees:	
Compensation and Executive & Risk (Chair)	**Other Current Public Company Board Service:** Ryman Hospitality Properties, Inc. (since 2001)
	Prior Public Company Board Service: Rite Aid Corporation (2003-2005)

Cecelia D. Stewart

Retired President of U.S.Consumer and Commercial Banking of Citigroup, Inc.

Independent director since 2014

Age 58

Committees:

Audit, Information Technology (Chair) and the Bank's Trust and Trust Audit Committees

Ms. Stewart retired as the President of U.S. Consumer and Commercial Banking of Citigroup, Inc., a global diversified financial services holding company, in April 2014. She had held that position since January 2011. From 2009 to 2011, she was President of the retail banking group and CEO of Morgan Stanley Private Bank N.A. Ms. Stewart's career in banking began at Wachovia Bank N.A. in 1978, where she held a variety of regional banking positions, culminating in her service as Executive Vice President and Head of Retail and Small Business Banking from 2003 to 2008.

Skills and Expertise:

- Extensive experience in banking and financial services
- Senior level policy-making experience at a public company
- Experience in employee matters, finance and accounting, risk assessment, and similar matters associated with running a large division of a public company
- Knowledge of public company executive compensation and other matters due to public company board service

Other Current Public Company Board Service: United States Cellular Corporation (since 2013)

Non-Profit Board Service: Serves on the board of a non-profit organization.

Rajesh Subramaniam

Chief Marketing and Communications Officer and Executive Vice

Mr. Subramaniam is Chief Marketing and Communications Officer and Executive Vice President of FedEx Corporation, Memphis, Tennessee, a provider of transportation, e-commerce and business services. He is also a member of FedEx's Strategic Management Committee and the Chairman of FedEx Office and Print Services, Inc. He served as Executive Vice President, Marketing and Communications, FedEx Services, Inc. from 2006 until 2016. From 2003 to 2006, Mr. Subramaniam was the President of FedEx Canada, and from 1999 to 2003, he served as Vice President of Marketing for FedEx's Asia Pacific business.

President of FedEx Corporation

Skills and Expertise:

- Senior level policy-making experience at a public company

Independent director since 2016

- In-depth experience in marketing, public relations, communications, crisis management, corporate strategy, global pricing and revenue management, customer experience, portfolio management and innovation

Age 51

- Expertise in information technology, including leadership of digital transformation

Committees:

Audit, Information Technology, Nominating & Corporate Governance, and the Bank's Trust Audit Committee

Non-Profit Board Service: Serves on the boards of several non-profit organizations.

Luke Yancy III

President and Chief Executive Officer of the MMBC Continuum	Mr. Yancy is President and Chief Executive Officer of the MMBC Continuum, Memphis, Tennessee, a non-profit organization that promotes minority and women business enterprises. MMBC and Mr. Yancy have announced Mr. Yancy's retirement as President and Chief Executive Officer, which is expected to be effective during 2017. Prior to 2000, Mr. Yancy was President, West Region, of AmSouth Bank and, prior to its acquisition by AmSouth in 1999, First American Bank.
Independent director since 2001	**Skills and Expertise:**
	• Experience in banking and financial services, including as commercial lending division head, group manager of business lending and consumer lending and senior credit officer
Age 67	• Wide-ranging ties in the mid-south community
Committees: Audit and the Bank's Trust Audit and Trust Committees (Chair of the latter)	• Memphis resident whose broad and deep knowledge of that market fits well with our strategy of focusing on our core banking franchise in Tennessee

The Board of Directors unanimously recommends that the shareholders vote <u>for</u> the election of all director nominees as described in Item No. 1.

Vote Item No. 2—Advisory Resolution to Approve Executive Compensation

First Horizon's executive compensation program received solid shareholder support last year and was approved, on an advisory basis, by 98.2% of the votes cast at the 2016 annual meeting. In accordance with SEC rules, we are again seeking a vote from our shareholders to approve, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement. Highlights of our corporate performance

in 2016 and the ways in which we link executive compensation to long-term performance are discussed below. The Compensation Discussion & Analysis beginning on page 40 of this proxy statement provides a detailed discussion of 2016 compensation for our executive officers and related matters. We encourage you to review closely both that section and the tabular disclosure that follows it.

2016 Corporate Performance

Our strategic and operating results in 2016 were excellent. Consolidated revenues grew 9%, while average loans and core deposits grew 10% and 11%, respectively, compared with 2015. Consolidated diluted earnings per share available to common shareholders (EPS) for 2016 were 94 cents per share, substantially better than 2015. In 2016 we increased our common dividend rate by 17%, to 28 cents per year, and early in 2017 we announced a 29% increase, to 36 cents per year. Total shareholder return (TSR) for 2016 was 40%, our fifth consecutive year of positive TSR.

Underlying our results were solid achievements in our core businesses of regional banking and fixed income. Regional bank average loans in 2016 were up 15% (following a similar rise in 2015); net interest income grew 13%; and total revenues grew 9%. Commercial lending growth was especially strong, enhanced by our acquisition of franchise finance loan portfolios in the third quarter. Fixed income noninterest income was up 16% in 2016, in spite of adverse market conditions late in the year. We continued to discipline our deployment of resources based on economic profit

(EP) principles and risk-adjusted return on capital analytics.

The Federal Funds rate was increased in December 2015 and again a year later. The first increase helped our net interest margin for 2016, and we expect the second increase will benefit our 2017 margin. Because we cannot control rate actions by the government, we continue to aggressively manage our net interest spreads and to strive for strong loan growth across our commercial and consumer banking businesses.

The Compensation Committee used these actions and outcomes in compensation decisions, as examined in more detail in the Compensation Discussion & Analysis section of this proxy statement. Of particular note, pretax income was a major driver of 2016 bonus outcomes. See "Annual MIP Bonus" beginning on page 49 for additional information. In addition, although no decisions have been made, in fiscal 2017 the Committee expects to deliver value commensurate with the achievements of the past five years.

Alignment with Long-Term Performance

Our compensation policies and philosophies are designed to align the interests of our employees with the interests of our shareholders. We seek to attract, retain, incent, and reward individuals who contribute to the long-term success of the company.

Key practices linking performance to compensation include:

- *Significant weighting of at-risk and stock-based awards.* For our CEO, goal-based performance pay elements in 2016 represented 54% of his regular annual compensation package, measured at target. For most other named executives, the at-risk performance portion represented about 40%. With respect to our CEO, 52% of his pay was linked directly to our stock price; for other NEOs, stock-linked pay ranged from 32% to 40%. See "Relative Sizing & Mix" beginning on page 47 below for details.

- *Share Retention Requirement.* Our stock ownership guidelines extend the effective time horizon of the stock awards substantially. They require that executives hold 50% of their net after-tax shares from awards until retirement after multiple-of-salary minimum ownership levels are attained. For an executive holding less than the guideline minimum, the requirement is 75%.

Details regarding these practices are discussed throughout the Compensation Discussion & Analysis beginning on page 40 of this proxy statement.

"Say on Pay" Resolution

Under Section 14A of the Securities Exchange Act, our shareholders are entitled to an advisory vote on the compensation of our named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion & Analysis, compensation tables and the related material. This advisory vote, commonly known as a "say on pay" proposal, gives our shareholders the opportunity to endorse or not endorse our executive pay program. At the 2011 annual meeting, our shareholders had the opportunity to cast an advisory vote on how frequently we should hold a "say on pay" vote. The Board recommended and the shareholders approved an annual frequency for the "say on pay" vote, and the Board subsequently determined that we would in fact conduct a "say on pay" vote at each annual meeting. At this meeting, shareholders will again have the opportunity to cast an advisory vote on how frequently we should hold a "say on pay" vote; see Vote Item No. 3 below in this proxy statement.

We believe that the information we have provided in the Compensation Discussion & Analysis, the executive compensation tables and the related disclosure contained in this proxy statement demonstrates that our executive compensation program was designed appropriately and is

working to ensure management's interests are aligned with our shareholders' interests to support the long-term success of First Horizon. Accordingly, the Board of Directors unanimously recommends that you vote in favor of the following resolution:

"RESOLVED, that the holders of the common stock of First Horizon National Corporation ("Company") approve, on an advisory basis, the compensation of the Company's executive officers named in the Summary Compensation Table of the Company's proxy statement for the 2017 annual meeting of shareholders as such compensation is disclosed in such proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion & Analysis, the executive compensation tables and the related disclosure contained in the proxy statement."

Because your vote is advisory, it will not be binding upon the Board, and the vote on this item will not be construed as overruling a Board decision or as creating or implying any additional fiduciary duty by the Board. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

The Board of Directors unanimously recommends that the shareholders vote for Item No. 2.

Vote Item No. 3—Advisory Proposal on Frequency of Advisory Vote on Executive Compensation

Under the rules of the Securities and Exchange Commission, our shareholders will have the opportunity to cast an advisory vote on how frequently we should seek an advisory vote on the compensation of our named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, such as Vote Item No. 2 above in this proxy statement. By voting on this Vote Item No. 3, shareholders will be able to indicate whether they would prefer an advisory vote on named executive officer compensation once every one, two, or three years. Regardless of the shareholder vote, the advisory vote on named executive officer compensation will occur not less frequently than once every three years in accordance with the rules of the Securities and Exchange Commission.

After careful consideration, our Board of Directors has determined that an advisory vote on executive compensation that occurs every year is the most appropriate alternative for First Horizon. Therefore, our Board of Directors recommends that you vote for a one-year interval for the advisory vote on executive compensation.

In formulating its recommendation, our Board of Directors considered that an annual advisory vote on executive compensation will allow our shareholders to provide us with their direct input on our compensation philosophy, policies and practices as disclosed in the proxy statement every year. Additionally, an annual advisory vote on executive compensation is consistent with our policy of seeking input from, and engaging in discussions with, our shareholders on corporate governance matters and our executive compensation philosophy, policies and practices. However, we understand that our shareholders

may have different views as to what is the best approach for First Horizon.

You may cast your vote on your preferred voting frequency by choosing the option of every year, every two years, every three years or abstain from voting when you vote in response to the resolution set forth below.

"RESOLVED, that a non-binding advisory vote of the holders of the common stock of First Horizon National Corporation to approve, on an advisory basis, the compensation of the named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the executive compensation tables and the related disclosure contained in the proxy statement, be held at an annual meeting of the shareholders, beginning with the 2017 annual meeting of shareholders, (1) every year, (2) every two years or (3) every three years."

Our Board will review and consider the outcome of this vote when making determinations as to when the advisory vote on the compensation of our named executive officers will again be submitted to shareholders for approval at an annual meeting of shareholders. However, because this vote is advisory and not binding on the Board of Directors or First Horizon in any way, the Board may decide that it is in the best interests of our shareholders and First Horizon to hold an advisory vote on executive compensation more or less frequently than indicated by the outcome of this vote.

The next vote on how frequently we should seek an advisory vote on executive compensation will take place at the company’s annual meeting of shareholders in 2023.

The Board of Directors unanimously recommends a vote on this Vote Item No. 3 for the option of every year as the frequency with which shareholders are provided an advisory vote on executive compensation as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission.

Vote Item No. 4—Ratification of Appointment of Auditors

Appointment of Auditors for 2017

KPMG LLP audited our annual consolidated financial statements for the year 2016. The Audit Committee has appointed KPMG LLP to be our auditors for the year 2017. Although not required by law, regulation or the rules of the New York Stock Exchange, the Board has determined, as a matter of good corporate governance and consistent with past practice, to submit to the shareholders as Vote Item No. 4 the ratification of KPMG LLP's appointment as our auditors for the year 2017, with the recommendation that the

shareholders vote for Item No. 4. Representatives of KPMG LLP are expected to be present at the annual meeting of shareholders with the opportunity to make a statement and to respond to appropriate questions. The 2016 engagement letter with KPMG LLP was subject to alternative dispute resolution procedures. If the shareholders do not vote to ratify KPMG LLP's appointment as our auditors for the year 2017, the Board of Directors will consider what course of action would be appropriate.

Fees Billed to Us by Auditors during 2015 and 2016

The table below and the paragraphs following it provide information regarding the fees billed to us by KPMG LLP during 2015 and 2016 for services

rendered in the categories of audit fees, audit-related fees, tax fees and all other fees.

	2015	**2016**
Audit Fees	$2,045,000	$1,991,000
Audit-Related Fees	276,500	268,500
Tax Fees	0	95,000
All Other Fees	0	0
Total	$2,321,500	$2,354,500

Audit Fees. Represents the aggregate fees billed to us by KPMG LLP for professional services rendered for the audit of our consolidated financial statements, including the audit of internal controls over financial reporting, and review of our quarterly financial statements or for services that are normally provided by KPMG LLP in connection with statutory and regulatory filings or engagements, including registration statements and offerings.

Audit-Related Fees. Represents the aggregate fees billed to us by KPMG LLP for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and that are not reported under “Audit Fees” above. The amount for both years consists of fees for audits of subsidiaries, compliance attestation and other

procedures and reports on controls placed in operation and tests of operating effectiveness.

Tax Fees. Represents the aggregate fees, if any, billed to us by KPMG LLP for professional services for tax compliance, tax advice, and tax planning. The amount for 2016 consists of fees for assistance with tax research and tax consulting services.

All Other Fees. Represents the aggregate fees (if any) billed to us by KPMG LLP for products and services other than those reported under the three preceding paragraphs.

None of the services provided to us by KPMG LLP and described in the paragraphs entitled “Audit-Related Fees,” “Tax Fees” and “All Other Fees” above were approved pursuant to the de minimis exception of SEC Rule 2-01(c)(7)(i)(C).

Policy on Pre-Approval of Audit & Non-Audit Services

The Audit Committee has adopted a policy providing for pre-approval of all audit and non-audit services to be performed by KPMG LLP, as the

registered public accounting firm that performs the audit of our consolidated financial statements that are filed with the SEC. Services either may be approved in advance by the Audit Committee specifically on a case-by-case basis ("specific pre-approval") or may be approved in advance ("advance pre-approval"). Advance pre-approval requires the Committee to identify in advance the specific types of services that may be provided and the fee limits applicable to such types of services, which limits may be expressed as a limit by type of service or by category of services. All requests to provide services that have been pre-approved in advance must be submitted to the Chief Accounting Officer prior to the provision of such services for a determination that the service to be provided is of the type and within the fee limit that has been pre-approved. Unless the type of service to be provided by KPMG LLP has received advance pre-approval under the policy and the fee for such service is within the limit pre-approved, the service will require specific pre-approval by the Committee.

The terms of and fee for the annual audit engagement must receive the specific pre-approval of the Committee. "Audit," "Audit-related," "Tax," and "All Other" services, as those terms are defined in the policy, have the advance pre-approval of the Committee, but only to the extent those services have been specified by the Committee and only in amounts that do not exceed the fee limits specified by the Committee. Such advance pre-approval shall be for a term of 12 months following the date of pre-approval unless the Committee specifically provides for a different term. Unless the Committee specifically determines otherwise, the aggregate amount of the fees pre-approved for All Other services for the fiscal year must not exceed seventy-five percent (75%) of the aggregate amount of the fees pre-approved for the fiscal year for Audit services, Audit-related services, and those types of Tax services that represent tax compliance or tax return preparation.

The policy delegates the authority to pre-approve services to be provided by KPMG LLP, other than the annual audit engagement and any changes thereto, to the chair of the Committee. The chair may not, however, make a determination that causes the 75% limit described above to be exceeded. Any service pre-approved by the chair will be reported to the Committee at its next regularly scheduled meeting.

The Board of Directors unanimously recommends that the shareholders vote for Item No. 4.

Other Matters

The Board of Directors, at the time of the preparation and printing of this proxy statement, knew of no other business to be brought before the meeting other than the matters described in this proxy statement. If any other business properly comes before the meeting, the persons named in the enclosed proxy will have discretionary authority to vote all proxies in accordance with their best judgment.

Shareholder Proposal & Nomination Deadlines

If you intend to present a shareholder proposal at the 2018 annual meeting, it must be received by the Corporate Secretary, First Horizon National Corporation, P.O. Box 84, Memphis, Tennessee, 38101, not later than November 13, 2017, for inclusion in the proxy statement and form of proxy relating to that meeting. In addition, Sections 2.8 and 3.6 of our Bylaws provide that a shareholder

who wishes to nominate a person for election to the Board or submit a proposal at a shareholders' meeting must comply with certain procedures whether or not the matter is included in our proxy statement. These procedures require written notification to us, generally not less than 90 nor more than 120 days prior to the date of the shareholders' meeting. If, however, we give fewer than 100 days' notice or public disclosure of the shareholders' meeting date to shareholders, then we must receive the shareholder notification not later than 10 days after the earlier of the date notice of the shareholders' meeting was mailed or publicly disclosed. Shareholder proposals and nominations for election to the Board must be submitted to the Corporate Secretary. The shareholder must disclose certain information about the nominee or item proposed, the shareholder and any other shareholders known to support the nominee or proposal. Section 2.4 of our Bylaws provides that our annual meeting of shareholders will be held each year on the date and at the time

fixed by the Board of Directors. The Board of Directors has determined that our 2018 annual meeting will be held on April 24, 2018. Thus, shareholder proposals submitted outside the process that permits them to be included in our proxy statement and director nominations must be submitted to the Corporate Secretary between December 25, 2017 and January 24, 2018, or the proposals will be considered untimely. Untimely proposals may be excluded by the Chairman or our proxies may exercise their discretion and vote on these matters in a manner they determine to be appropriate.

Compensation Discussion and Analysis

This CD&A section of our proxy statement discusses and analyzes the compensation programs applicable to our senior executives. In particular, this section focuses on five of those executives, referred to as the "Named Executive Officers" or "NEOs":

Named Executive Officer	Position
D. Bryan Jordan	Chairman of the Board, President, and Chief Executive Officer
William C. Losch III	Executive Vice President – Chief Financial Officer
Michael E. Kisber	President – FTN Financial
David T. Popwell	President – Banking
Charles T. Tuggle, Jr.	Executive Vice President – General Counsel

The Compensation Committee of the Board oversees compensation for all NEOs. For more information see "The Compensation Committee" beginning on page 18 of this proxy statement.

Note 10. Comprehensive Income

The changes in the components of other comprehensive income, were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
	(unaudited)			
Net income	$ 1,289,938	$ 1,638,975	$ 3,844,416	$ 4,546,348
Change in unrealized gains (losses) on marketable securities, net of taxes(1)	(1,546)	102,546	(34,637)	109,758
Change in cumulative translation adjustment	(65,588)	59,725	(27,167)	87,667
Change in unrealized gains on cash flow hedges, net of taxes(2)	49,128	(10,921)	49,593	(191,219)
Comprehensive income	$ 1,271,932	$ 1,790,325	$ 3,832,205	$ 4,552,554

(1) Change in unrealized gains (losses) on marketable securities is recorded net of taxes of $1.1 million and $5.6 million for the three months ended September 30, 2008 and 2009, and $24.1 million and $5.2 million for the nine months ended September 30, 2008 and 2009.

(2) Change in unrealized gains on cash flow hedges is recorded net of taxes of $34.1 million and $7.6 million for the three months ended September 30, 2008 and 2009, and $34.5 million and $132.9 million for the nine months ended September 30, 2008 and 2009.

The components of accumulated other comprehensive income, were as follows (in thousands):

	As of December 31, 2008	As of September 30, 2009 (unaudited)
Unrealized net gains on marketable securities, net of taxes	$ 9,995	$ 119,753
Cumulative translation adjustment	6,677	94,344
Unrealized gains on cash flow hedges, net of taxes	209,907	18,688

Accumulated other comprehensive income	$	226,579	$	232,785

Note 11. Contingencies

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. We currently have three cases pending at the European Court of Justice, which will address questions regarding whether advertisers and search engines can be held liable for use of trademarked terms in keyword advertising. We are litigating, or have recently litigated similar issues in other cases, in the U.S., Australia, Austria, Brazil, Chile, China, France, Germany, Israel, Italy, Taiwan, and the United Kingdom.

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 the rights of others. 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 revenues 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 have also had patent lawsuits filed against us alleging that certain of our products and services, including Google Web Search, Google AdWords, Google AdSense, Google Talk, and Google Chrome, infringe patents held by others. In addition, the number of demands for license fees and the dollar amounts associated with each request continue to increase. Adverse results in these lawsuits, or our decision to license patents based upon these demands, may result in substantial costs and, in the case of adverse litigation results, could prevent us from offering certain features, functionalities, products, or services, which could result in a loss of revenues for us or otherwise harm our business.

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 and threatened 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.

EPA Investigation

In February 2009, we learned of a U.S. Environmental Protection Agency (EPA) investigation into an alleged release of refrigerant at one of our smaller data facilities, which we acquired from DoubleClick, and the accuracy of related statements and records. We are cooperating with the EPA and have provided documents and other materials. The EPA investigation could result in fines, civil or criminal penalties, or other administrative action.

We currently believe this matter 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 effect 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.

Note 12. Stockholders Equity

The following table presents the weighted-average assumptions used to estimate the fair values of the stock options granted (excluding options granted in connection with the Exchange, see below) in the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
		(unaudited)		
Risk-free interest rate	3.3%	2.8%	3.2%	2.6%
Expected volatility	35%	35%	35%	37%
Expected life (in years)	5.3	5.8	5.3	5.8
Dividend yield				
Weighted-average estimated fair value of options granted during the period	$ 196.86	$ 168.23	$ 205.27	$ 160.05

The following table summarizes the activities for our options for the nine months ended September 30, 2009:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions) (1)
		(unaudited)		
Balance at December 31, 2008	13,971,438	$ 391.40		
Options granted (2)	9,240,669	$ 323.69		
Exercised	(1,149,380)	$ 142.37		
Canceled/forfeited (2)	(8,356,919)	$ 510.31		

Balance at September 30, 2009	13,705,808	$	294.54	6.7	$ 2,771.3
Vested and exercisable as of September 30, 2009	5,765,879	$	249.49	5.8	$ 1,417.5
Vested and exercisable as of September 30, 2009 and expected to vest thereafter (3)	12,966,292	$	292.74	6.7	$ 2,644.3

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of $495.85 of our Class A common stock on September 30, 2009.
(2) The number of options granted and canceled/forfeited includes options granted and canceled in connection with the Exchange (see below).
(3) Options expected to vest reflect an estimated forfeiture rate.

The following table summarizes additional information regarding outstanding, exercisable, and exercisable and vested stock options at September 30, 2009:

	Options Outstanding			Options Exercisable		Options Exercisable and Vested	
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price (unaudited)	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$0.30 $94.80	738,923	4.1	$ 21.71	712,064	$ 20.45	660,273	$ 21.48
$117.84 $198.41	1,318,970	3.6	$ 177.38	1,318,124	$ 177.37	1,318,124	$ 177.37
$205.96 $298.91	1,207,938	4.5	$ 274.96	1,185,360	$ 274.69	1,185,360	$ 274.69
$300.97 $399.00	8,894,394	7.5	$ 309.98	2,228,126	$ 311.28	2,228,126	$ 311.28
$401.78 $499.07	1,255,861	8.8	$ 437.42	157,397	$ 439.96	157,397	$ 439.96
$500.00 $594.05	285,798	3.7	$ 532.10	214,065	$ 528.02	214,065	$ 528.02
$615.95 $699.35	3,844	5.5	$ 649.12	2,499	$ 647.79	2,499	$ 647.79
$707.00 $732.94	80	8.2	$ 710.84	35	$ 710.84	35	$ 710.84
$0.30 $732.94	13,705,808	6.7	$ 294.54	5,817,670	$ 249.49	5,765,879	$ 249.49

The above tables include 1.5 million warrants held by selected financial institutions that were options purchased from employees under our Transferable Stock Option (TSO) program.

The total grant date fair value of stock options vested during the three and nine months ended September 30, 2009 was $280.5 million and $423.1 million. The total grant date fair value of stock options vested during the three and nine months ended September 30, 2008 was $141.2 million and $461.2 million. The aggregate intrinsic value of all options and warrants exercised during the three and nine months ended September 30, 2009 was $72.6 million and $283.9 million. The aggregate intrinsic value of all options exercised during the three and nine months ended September 30, 2008 was $64.4 million and $424.2 million. These amounts do not include the aggregate sales price of options sold under our TSO program.

During the nine months ended September 30, 2009, the number of shares underlying TSOs sold to selected financial institutions under the TSO program was 488,249 at a total value of $79.1 million, or an average of $161.95 per share, including an average premium of $33.78 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 September 30, 2009, the number of options eligible for participation under the TSO program was approximately 11 million.

In March 2009, we completed an offer to exchange certain employee stock options issued under Google s 2004 Stock Plan (the Exchange). Certain previously granted options were exchanged for new options with a lower exercise price granted on a one-for-one basis. Options for an aggregate of approximately 7.6 million shares of Google s Class A common stock were exchanged. Options granted pursuant to the Exchange have an exercise price of $308.57 per share, the closing price of Google s Class A common stock as reported by The Nasdaq Global Select Market on March 6, 2009. Options granted pursuant to the Exchange have a new vesting schedule determined by adding 12 months to each vesting date under the exchanged options original vesting schedule. In addition, new options will vest no sooner than six months after the date of the Exchange. The Exchange resulted in a modification charge of approximately $360 million which is being recognized over the vesting periods of the new options. These vesting periods range from six months to five years. We recorded approximately $36 million and $89 million of the modification charge in the three and nine months ended September 30, 2009.

As of September 30, 2009, there was $1,202.8 million of unrecognized compensation cost related to outstanding employee stock options. This amount is expected to be recognized over a weighted-average period of 3.3 years. To the extent the actual forfeiture rate is different from what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

19

The following table summarizes the activities for our unvested restricted stock units and restricted shares for the nine months ended September 30, 2009:

	Unvested Restricted Stock Units and Restricted Shares	
	Number of Shares	Weighted-Average Grant-Date Fair Value
	(unaudited)	
Unvested at December 31, 2008	3,268,089	$ 514.56
Granted	2,111,843	$ 409.90
Vested	(1,035,069)	$ 484.41
Canceled	(285,855)	$ 468.48
Unvested at September 30, 2009	4,059,008	$ 471.40
Expected to vest after September 30, 2009 (1)	3,678,273	$ 471.40

(1) Restricted stock units and restricted shares expected to vest reflect an estimated forfeiture rate.

As of September 30, 2009, there was $1,566.3 million of unrecognized compensation cost related to employee unvested restricted stock units and restricted shares. This amount is expected to be recognized over a weighted-average period of 2.9 years. To the extent the actual forfeiture rate is different from what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

Note 13. 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. Our total unrecognized tax benefits as of December 31, 2008 and September 30, 2009 were $721.1 million and $1,121.4 million. Also, our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were $561.3 million and $766.7 million as of December 31, 2008 and September 30, 2009. The increase in our unrecognized tax benefits during the nine months ended September 30, 2009 was primarily related to uncertain tax positions relating to our international structure.

Note 14. Information about Geographic Areas

Our chief operating decision-makers (i.e., our chief executive officer, his direct reports, and our presidents) 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 addresses of our advertisers. The following table sets forth revenues and long-lived assets by geographic area (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
	(unaudited)			
Revenues:				
United States	$ 2,695,012	$ 2,802,215	$ 7,797,510	$ 8,038,405
United Kingdom	776,160	765,132	2,353,091	2,213,540
Rest of the world	2,070,219	2,377,504	5,944,045	6,724,793
Total revenues	$ 5,541,391	$ 5,944,851	$ 16,094,646	$ 16,976,738

20

	As of December 31, 2008	As of September 30, 2009 (unaudited)
Long-lived assets:		
United States	$ 9,782,825	$ 9,458,743
International	1,806,568	1,890,558
Total long-lived assets	$ 11,589,393	$ 11,349,301

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements regarding:

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

the growth of our business and revenue;

the decline in our revenue growth rate;

our expectation that we will continue to take steps to improve the relevance of the ads we deliver and to reduce the number of accidental clicks;

seasonal fluctuations in internet usage and traditional retail seasonality are likely to cause fluctuations in our quarterly results;

our expectation that growth in advertising revenues from our web sites will continue to exceed that from our Google Network members web sites, which will have a positive impact on our operating margins;

our plans to continue to invest in our business, including increasing our hiring rate, and to make acquisitions;

the fact that our cost of revenues and traffic acquisition costs may increase in dollars and as a percentage of revenues;

our belief that our foreign exchange risk management program will not fully offset the exposure to fluctuation in foreign currencies;

fluctuations in aggregate paid clicks and average cost-per-click;

continued investments in international markets;

our future stock-based compensation expenses;

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

our belief that our research and development and sales and marketing expenses may increase in dollars and as a percentage of revenues;

the increase of costs related to hedging activities under our foreign exchange risk management program;

- *regarding fluctuations in our effective tax rate;*

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

- *our payment terms to certain advertisers which may increase our working capital requirements;*

- *regarding fluctuations in our capital expenditures; and*

- *our belief that the EPA s investigation will not have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows;*

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

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

Overview

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

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

Advertisers. We provide advertisers with cost-effective ways to deliver online ads, as well as offline ads on television, to customers across Google sites and through the Google Network, which is the network of online and offline third parties that use our advertising programs to deliver relevant ads with their search results and content.

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

How We Generate Revenues

Advertising revenues made up 97% of our revenues for the three and nine months ended September 30, 2008 and 2009. We derive most of our additional revenues from offering internet ad serving and management services to advertisers and ad agencies and the license of our enterprise products, search solutions, and web search technology.

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

Google AdSense refers to the online programs through which we distribute our advertisers AdWords ads for display on the web sites of our Google Network members as well as programs to deliver ads on television. Our AdSense programs include AdSense for search and AdSense for content.

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

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

For our online AdSense program, our advertisers pay us a fee each time a user clicks on one of our advertisers ads displayed on our Google Network members web sites or, for those advertisers who choose our cost-per-impression pricing, as their ads are displayed. To date, we have paid most of these advertiser fees to our Google Network members, and we expect to continue doing so for the foreseeable future. We recognize these advertiser fees as revenue and the portion of the advertiser fee we pay to our Google Network members as traffic acquisition costs under cost of revenues.

In some cases, we guarantee our Google Network members minimum revenue share payments based on their achieving defined performance terms, such as number of search queries or advertisements displayed. Google Network members do not pay any fees associated with the use of our AdSense program on their web sites.

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

Google TV Ads enables advertisers, operators, and programmers to buy, schedule, deliver, and measure ads on television. We recognize as revenue the fees charged advertisers each time an ad is displayed on television.

DoubleClick provides us with a platform for delivering display advertising. DoubleClick offers online ad serving and management services to advertisers, ad agencies, and web site publishers. The related fees are recognized primarily as licensing and other revenues in the period the advertising impressions are delivered.

We have entered into arrangements with certain content providers under which we distribute or license their video and other content. Our agreements with content providers are typically standard agreements with no stated term and are terminable at will. Agreements with our larger members are individually negotiated. Both the standard agreements and the negotiated agreements contain provisions requiring us to pay the content providers for the content we license. In a number of these arrangements, we display ads on the pages of our web sites and our Google Network members web sites from which the content is viewed and share most of the fees these ads generate with the content providers and Google Network members. We recognize these advertiser fees as revenue. We recognize the portion of the advertiser fees we pay to our content providers as content acquisition costs under cost of revenues and the portion we pay to our Google Network members as traffic acquisition costs. In some cases, we guarantee our content providers minimum revenue share or other payments.

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

- The relevance, objectivity, and quality of our search results and the relevance and quality of ads displayed with each search results page.

- The number of searches initiated at our web sites and our Google Network members web sites and the underlying purpose of these searches (for instance, whether they are for academic research, to find a news article, or to find a product or service).

- The number and prominence of ads displayed on our web sites and our Google Network members web sites.

- The number of visits to, and the content of, our Google Network members web sites and certain of our web sites and the relevance and quality of the ads we display next to this content.

- The advertisers return on investment from advertising campaigns on our web sites or our Google Network members web sites compared to other forms of advertising.

- The total advertising spending budgets of each advertiser.

- The number of advertisers and the breadth of items advertised.

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

Trends in Our Business

Our business has grown rapidly since inception, resulting in substantially increased revenues, and we expect that our business will continue to grow. However, our revenue growth rate has generally declined over time, and we expect it will continue to do so as a result of a number of factors including increasing competition, the difficulty of maintaining growth rates as our revenues increase to higher levels and increasing maturity of the online advertising market in certain countries. In addition, weak economic conditions have recently generally adversely impacted our revenue growth rate and may result in fewer commercial queries by our users and may cause advertisers to reduce the amount they spend on online advertising, including the amount they are willing to pay for each click or impression, which could negatively affect the growth rate of our revenues. Further, a slow or uneven pace of economic recovery could also negatively affect the growth rate of our revenues.

The main focus of our advertising programs is to provide relevant and useful advertising to our users, reflecting our commitment to constantly improve their overall web experience. As a result, we expect to continue to take steps to improve the relevance of the ads displayed on our web sites and our Google Network members web sites. These steps include not displaying ads that generate low click-through rates or that send users to irrelevant or otherwise low quality sites and terminating our relationships with those Google Network members whose web sites do not meet our quality requirements. We may also continue to take steps to reduce the number of accidental clicks by our users. These steps could negatively affect the growth rate of our revenues.

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

The operating margin we realize on revenues generated from ads placed on our Google Network members web sites through our AdSense program is significantly lower than the operating margin we realize from revenues generated from ads placed on our web sites because most of the advertiser fees from ads served on Google Network members web sites are shared with our Google Network members. For the past five years, growth in advertising revenues from our web sites has generally exceeded that from our Google Network members web sites. This trend has had a positive impact on our operating margins, and we expect that this will continue for the foreseeable future, although the relative rate of growth in revenues from our web sites compared to the rate of growth in revenues from our Google Network members web sites may vary over time.

We continue to invest in building the necessary employee and systems infrastructures required to manage our growth and develop and promote our products and services, and this may cause our operating margins to decrease. We have generally experienced and expect to continue to experience growth in our operations as we build our research and development programs, expand our base of users, advertisers, Google Network members, and content providers, and increase our presence in international markets. Also, we have acquired and expect to continue to acquire businesses and other assets from time to time. These acquisitions generally enhance the breadth and depth of our expertise in engineering and other functional areas, our technologies, and our product offerings. Our full-time employee headcount was 20,123 at September 30, 2008 and 19,665 at September 30, 2009. In the past few quarters, we have made efforts to improve the discipline of our hiring process and to focus on better managing our expense growth. However, we expect to continue to invest in our business, including significantly increasing our hiring rate, and this may cause our operating margins to decrease.

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

Our international revenues have grown as a percentage of our total revenues from 51% in the three months ended September 30, 2008 to 53% in the three months ended September 30, 2009, and from 52% in the nine months ended September 30, 2008 to 53% in the nine months ended September 30, 2009. This increase in the portion of our revenues derived from international markets results largely from increased acceptance of our advertising programs, and our continued progress in developing localized versions of our products in these international markets. The increase in the proportion of international revenues derived from international markets continues to increase our exposure to fluctuations in foreign currency to U.S. dollar exchange rates. For example, in the third quarter of 2009, the general strengthening of the U.S. dollar relative to foreign currencies (primarily the British pound and the Euro) as compared to the third quarter of 2008 had an unfavorable impact on our revenues. We have a foreign exchange risk management program that is designed to reduce our exposure to fluctuations in foreign currencies; however, this program will not fully offset the effect of fluctuations on our revenues and earnings.

Results of Operations

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
		(unaudited)		
Consolidated Statements of Income Data:				
Revenues	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of revenues	39.2	37.4	40.0	37.9
Research and development	12.7	12.7	12.8	12.4
Sales and marketing	9.2	8.4	8.9	8.3
General and administrative	9.2	6.6	8.7	7.1
Total costs and expenses	70.3	65.1	70.4	65.7
Income from operations	29.7	34.9	29.6	34.3
Interest and other income (expense), net	0.4	(0.1)	1.6	(0.1)
Income before income taxes	30.1	34.8	31.2	34.2
Provision for income taxes	6.8	7.2	7.3	7.4
Net income	23.3%	27.6%	23.9%	26.8%

Revenues

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
			(unaudited)	
Advertising revenues:				
Google web sites	$ 3,672.1	$ 3,955.7	$ 10,602.6	$ 11,301.2
Google Network web sites	1,679.9	1,800.9	5,021.3	5,122.4
Total advertising revenues	5,352.0	5,756.6	15,623.9	16,423.6
Licensing and other revenues	189.4	188.3	470.7	553.1
Revenues	$ 5,541.4	$ 5,944.9	$ 16,094.6	$ 16,976.7

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
			(unaudited)	
Advertising revenues:				
Google web sites	67%	67%	66%	67%
Google Network web sites	30	30	31	30
Total advertising revenues	97	97	97	97

Google web sites as % of advertising revenues	69	69	68	69
Google Network web sites as % of advertising revenues	31	31	32	31
Licensing and other revenues	3%	3%	3%	3%

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

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

Aggregate paid clicks on Google web sites and Google Network members web sites increased 14% from the three months ended September 30, 2008 to the three months ended September 30, 2009, 15% from the nine months ended September 30, 2008 to the nine months ended September 30, 2009, and 4% from the three months ended June 30, 2009 to the three months ended September 30, 2009. Average cost-per-click on Google web sites and Google Network members web sites decreased 6% from the three months ended September 30, 2008 to the three months ended September 30, 2009 and 11% from the nine months ended September 30, 2008 to the nine months ended September 30, 2009, but increased 5% from the three months ended June 30, 2009 to the three months ended September 30, 2009. The rate of change in aggregate paid clicks and average cost-per-click, and their correlation with the rate of change in revenues, has fluctuated and may fluctuate in the future because of various factors including the revenue growth rates on our web sites compared to those of our Google Network members, advertiser competition for keywords, changes in foreign currency exchange rates, seasonality, the fees advertisers are willing to pay based on how they manage their advertising costs, and the general economic conditions. In addition, traffic growth in emerging markets compared to more mature markets and across various advertising verticals also contributes to these fluctuations. Changes in aggregate paid clicks and average cost-per-click may not be indicative of our performance or advertiser experiences in any specific geographic market, vertical, or industry.

Revenues by Geography

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2008	**2009**	**2008**	**2009**
		(unaudited)		
United States	49%	47%	48%	47%
United Kingdom	14%	13%	15%	13%
Rest of the world	37%	40%	37%	40%

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

The general weakening of the U.S. dollar relative to foreign currencies (primarily the British pound and the Euro) from the three months ended June 30, 2009 to the three months ended September 30, 2009 had a favorable impact on our international revenues (international revenues increased $228.9 million during this period). Had foreign exchange rates remained constant in these periods, our total revenues would have been approximately $166 million, or 2.8%, lower in the three months ended September 30, 2009. This is before consideration of hedging gains recognized to revenues of $123.7 million and $38.8 million in the three months ended June 30, 2009 and September 30, 2009.

The general strengthening of the U.S. dollar relative to foreign currencies (primarily the British pound and the Euro) from the three months ended September 30, 2008 to the three months ended September 30, 2009 had an unfavorable impact on our international revenues (international revenues increased $296.3 million during this period). Had foreign exchange rates remained constant in these periods, our total revenues would have been approximately $297 million, or 5.0%, higher in the three months ended September 30, 2009. This is before consideration of hedging gains recognized to revenues of $34.2 million and $38.8 million in the three months ended September 30, 2008 and September 30, 2009.

The general strengthening of the U.S. dollar relative to foreign currencies (primarily the British pound and the Euro) from the nine months ended September 30, 2008 to the nine months ended September 30, 2009 had an unfavorable impact on our international revenues (international revenues increased $641.2 million during this period). Had foreign exchange rates remained constant in these periods, our total revenues would have been approximately $1.2 billion, or 7.2%, higher in the nine months ended September 30, 2009. This is before consideration of hedging gains recognized to revenues of $38.9 million and $316.6 million in the nine months ended September 30, 2008 and September 30, 2009.

Although we expect to continue to make investments in international markets, they may not result in an increase in our international revenues as a percentage of total revenues in the remainder of 2009 or thereafter. See Note 14 of Notes to Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information about geographic areas.

Costs and Expenses

Cost of Revenues.

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

Certain AdSense agreements obligate us to make guaranteed minimum revenue share payments to Google Network members based on their achieving defined performance terms, such as number of search queries or advertisements displayed. These fees may be paid in advance or in arrears and are non-refundable but are subject to adjustment based on the achievement of the defined performance terms. In addition, the arrangements are terminable at will, although under the terms of certain contracts we or our Google Network members may be subject to penalties in the event of early termination. To the extent we expect revenues generated under 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. For other AdSense agreements under which we only pay on a contractual revenue share basis, we recognize the revenue share obligations as traffic acquisition costs at the same time the related revenue is recognized. Also, 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.

In addition, 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. The fees are non-refundable. Further, the arrangements are terminable at will, although under the terms of certain contracts, we or our distribution partners may be subject to penalties in the event of early termination. 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 and they are longer than one year, or based on any contractual revenue share, if greater. Otherwise, the fees are charged to expense as incurred. The estimated useful life of the access points is based on the historical average period of time they generate traffic and revenues.

Cost of revenues also includes the expenses associated with the operation of our data centers, including depreciation, labor, energy and bandwidth costs, credit card and other transaction fees related to processing customer transactions, amortization of acquired intangible assets 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 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, an amount that is based on the number of times the content is displayed, or an amount calculated on a straight-line basis over the terms of the agreements. The following tables present our cost of revenues and cost of revenues as a percentage of revenues, and our traffic acquisition costs and traffic acquisition costs as a percentage of advertising revenues, for the periods presented (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
		(unaudited)		
Cost of revenues	$ 2,173.4	$ 2,226.2	$ 6,431.5	$ 6,435.7
Cost of revenues as a percentage of revenues	39.2%	37.4%	40.0%	37.9%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
		(unaudited)		
Traffic acquisition costs related to AdSense arrangements	$ 1,328.4	$ 1,330.6	$ 3,991.1	$ 3,795.1
Traffic acquisition costs related to distribution arrangements	166.8	228.6	464.5	653.5
Traffic acquisition costs	$ 1,495.2	$ 1,559.2	$ 4,455.6	$ 4,448.6
Traffic acquisition costs as a percentage of advertising revenues	27.9%	27.1%	28.5%	27.1%

Cost of revenues increased $52.8 million from the three months ended September 30, 2008 to the three months ended September 30, 2009. The increase was primarily related to an increase in traffic acquisition costs of $61.8 million under our distribution arrangements as a result of the amortization of more distribution fees paid as well as more traffic directed to our websites. This increase was partially offset by a decrease in the amortization of intangible assets of $8.9 million as certain intangible assets have been fully amortized. The decrease in traffic acquisition costs as a percentage of advertising revenues was primarily due to an increase in the proportion of advertising revenues from our web sites compared to our Google Network members web sites.

Cost of revenues increased $4.2 million from the nine months ended September 30, 2008 to the nine months ended September 30, 2009. Over the same period there was an increase in traffic acquisition costs of $189.0 million under our distribution arrangements as a result of the amortization of more distribution fees paid, as well as more traffic directed to our websites, partially offset by a decrease in fees of $196.0 million under our AdSense program due to more revenues realized from Google Network members to whom we pay lower revenue share and less revenues realized from those members to whom we pay a higher revenue share. In addition, there was an increase in data center costs of $35.7 million primarily resulting from the depreciation of additional information technology assets as well as additional labor required to manage the data centers, partially offset by a decrease in credit card and other transaction processing fees of $16.3 million, resulting primarily from less advertiser fees generated through AdWords online, and a decrease in content acquisition costs of $11.2 million.

We expect cost of revenues to increase in dollar amount and may increase as a percentage of revenues in the remainder of 2009 and in future periods, primarily as a result of forecasted increases in traffic acquisition costs, data center costs, credit card and other transaction fees, content acquisition, and other costs. Traffic acquisition costs as a percentage of advertising revenues may fluctuate in the future based on a number of factors, including the following:

- The relative growth rates of revenues from our web sites and from our Google Network members web sites.

- Whether we are able to enter into more AdSense arrangements that provide for lower revenue share obligations or whether increased competition for arrangements with existing and potential Google Network members results in less favorable revenue share arrangements, including arrangements with guaranteed minimum payments.

Whether we are able to continue to improve the monetization of traffic on our web sites and our Google Network members web sites, particularly with those members to whom we have guaranteed minimum revenue share payments.

The relative growth rates of expenses associated with distribution arrangements and the related revenues generated, including whether we share with certain existing and new distribution partners proportionately more

29

of the aggregate advertising fees that we earn from paid clicks derived from search queries these partners direct to our web sites.
Research and Development.

The following table presents our research and development expenses, and research and development expenses as a percentage of revenues, for the periods presented (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
		(unaudited)		
Research and development expenses	$ 704.6	$ 757.5	$ 2,059.9	$ 2,106.8
Research and development expenses as a percentage of revenues	12.7%	12.7%	12.8%	12.4%

Research and development expenses consist primarily of compensation and related costs for personnel responsible for the research and development of new products and services, as well as significant improvements to existing products and services. We expense research and development costs as they are incurred.

Research and development expenses increased $52.9 million from the three months ended September 30, 2008 to the three months ended September 30, 2009. This increase was primarily due to an increase in labor related costs of $35.1 million. In addition, there was an increase of $26.4 million in stock-based compensation expense primarily due to the modification charge incurred under the stock option exchange program in March 2009 and additional stock-based awards issued to existing and new employees. These increases were partially offset by a decrease in the amortization of intangible assets of $9.8 million as certain intangible assets have been fully amortized.

Research and development expenses increased $46.9 million from the nine months ended September 30, 2008 to the nine months ended September 30, 2009. This increase was primarily due to an increase in labor related costs of $71.0 million, partially offset by a decrease in professional service fees of $17.9 million, the majority of which were related to consulting costs. In addition, there was a decrease in travel and related expenses of $14.2 million.

We expect that research and development expenses may increase in dollar amount and as a percentage of revenues in the remainder of 2009 and future periods because we expect to continue to invest in building the necessary employee and systems infrastructures required to support the development of new, and improve existing, products and services.

Sales and Marketing.

The following table presents our sales and marketing expenses, and sales and marketing expenses as a percentage of revenues, for the periods presented (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
		(unaudited)		
Sales and marketing expenses	$ 508.8	$ 497.8	$ 1,440.3	$ 1,400.8
Sales and marketing expenses as a percentage of revenues	9.2%	8.4%	8.9%	8.3%

Sales and marketing expenses consist primarily of compensation and related costs for personnel engaged in customer service and sales and sales support functions, as well as advertising and promotional expenditures.

Sales and marketing expenses decreased $11.0 million from the three months ended September 30, 2008 to the three months ended September 30, 2009.

Sales and marketing expenses decreased $39.5 million from the nine months ended September 30, 2008 to the nine months ended September 30, 2009 primarily due to a decrease in conference, travel, and related expense of $60.3 million. This decrease was partially offset by an increase in stock-based compensation expense of $28.9 million primarily due to the modification charge incurred under the stock option exchange program in March 2009 and additional stock based awards issued to existing and new employees.

We expect that sales and marketing expenses may increase in dollar amount and as a percentage of revenues in the remainder of 2009 and future periods as we expand our business on a worldwide basis.

General and Administrative.

The following table presents our general and administrative expenses, and general and administrative expenses as a percentage of revenues, for the periods presented (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
		(unaudited)		
General and administrative expenses	$ 507.1	$ 389.6	$ 1,391.3	$ 1,202.2
General and administrative expenses as a percentage of revenues	9.2%	6.6%	8.7%	7.1%

General and administrative expenses consist primarily of compensation and related costs for personnel and facilities related to our finance, human resources, facilities, information technology, and legal organizations, and fees for professional services. Professional services are principally comprised of outside legal, audit, information technology consulting, and outsourcing services.

General and administrative expenses decreased $117.5 million from the three months ended September 30, 2008 to the three months ended September 30, 2009. This decrease was primarily related to the settlement agreement we entered into in October 2008 with the Authors Guild and the Association of American Publishers (AAP) under which we recognized $95.1 million of expense in the three months ended September 30, 2008. In addition, there was a decrease in bad debt expense of $19.1 million.

General and administrative expenses decreased $189.1 million from the nine months ended September 30, 2008 to the nine months ended September 30, 2009. The decrease was primarily related to the settlement agreement with the Authors Guild and the AAP under which we recognized $95.1 million of expense in the nine months ended September 30, 2008. In addition, there was a decrease in consulting services of $55.9 million and in bad debt expense of $17.5 million. These decreases were partially offset by an increase in stock-based compensation expense of $17.8 million primarily due to the modification charge incurred under the stock option exchange program in March 2009 and additional stock-based awards issued to existing and new employees.

Stock-Based Compensation.

The following table presents our stock-based compensation, and stock-based compensation as a percentage of revenues, for the periods presented (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
		(unaudited)		
Stock-based compensation	$ 280.0	$ 317.5	$ 833.6	$ 888.1
Stock-based compensation as a percentage of revenues	5.1%	5.3%	5.2%	5.2%

In March 2009, we completed an offer to exchange certain employee stock options issued under Google s 2004 Stock Plan (the Exchange). Certain previously granted options were exchanged for new stock options with a lower exercise price granted on a one-for-one basis. Options for an aggregate of approximately 7.6 million shares of Google s Class A common stock were exchanged. Options granted pursuant to the Exchange have an exercise price of $308.57 per share, the closing price of Google s Class A common stock as reported by The Nasdaq Global Select Market on March 6, 2009. Options granted pursuant to the Exchange have a new vesting schedule determined by adding 12 months to each vesting date under the exchanged options original vesting schedule. In addition, new options will vest no sooner than six months after the date of the Exchange. The Exchange resulted in a modification charge of approximately $360 million which is being recognized over the vesting periods of the new options. These vesting periods range from six months to approximately five years. We recorded approximately $36 million and $89 million of the modification charge in the three and nine months ended September 30, 2009.

Stock-based compensation increased $37.5 million from the three months ended September 30, 2008 to the three months ended September 30, 2009, largely due to the modification charge recognized in the three months ended September 30, 2009, as well as additional stock awards issued to existing and new employees. This increase was partially offset by lower stock-based compensation expense as a result of adjustments made to the overall estimated forfeiture rate.

Stock-based compensation increased $54.5 million from the nine months ended September 30, 2008 to the nine months ended September 30, 2009, largely due to the modification charge recognized in the nine months ended September 30, 2009, as well as additional stock awards issued to existing and new employees. This increase was partially offset by lower stock-based compensation expense as a result of a significant amount of equity awards which fully vested during 2008, as well as adjustments made to the overall estimated forfeiture rate.

We expect stock-based compensation to be approximately $1.2 billion in 2009 and $2.5 billion thereafter. These amounts do not include stock-based compensation related to stock awards that have been and may be granted to employees and directors subsequent to September 30, 2009 and stock awards that have been or may be granted to non-employees. In addition, to the extent the actual forfeiture rate is different from what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

Interest and Other Income (Expense), Net

Interest and other income (expense), net, decreased $28.4 million from the three months ended September 30, 2008 to the three months ended September 30, 2009. This decrease was primarily a result of a decrease in interest income of $44.3 million due to lower yields on our cash and investment balances, partially offset by an increase in net realized gains on sales of marketable securities of $8.4 million and a decrease in net foreign exchange related costs of $7.6 million.

Interest and other income (expense), net, decreased $265.2 million from the nine months ended September 30, 2008 to the nine months ended September 30, 2009. This decrease was primarily a result of a decrease in interest income of $138.3 million due to lower yields on our cash and investment balances and an increase in net foreign exchange related costs of $126.0 million as a result of the increased hedging activities related to exposures in foreign currencies.

The costs of our foreign exchange hedging activities that we recognized to interest and other income (expense), net are primarily a function of the notional amount of the option and forward contracts and their related duration, the movement of the foreign exchange rates relative to the strike prices of the contracts as well as the volatility of the foreign exchange rates.

As we expand our international business, we believe costs related to hedging activities under our foreign exchange risk management program may increase in dollar amount in the remainder of 2009 and future periods.

Provision for Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
	(unaudited)			
Provision for income taxes	$ 378.8	$ 427.6	$ 1,173.8	$ 1,266.2
Effective tax rate	22.7%	20.7%	23.4%	21.8%

Our provision for income taxes increased from the three and nine months ended September 30, 2008 to the three and nine months ended September 30, 2009, primarily as a result of increases in federal and state income taxes, driven by higher taxable income period over period. Our effective tax rate decreased from the three and nine months ended September 30, 2008 to the three and nine months ended September 30, 2009, primarily because proportionately more of our annual earnings in 2009 compared to 2008 are expected to be realized in countries where we have lower statutory tax rates, partially offset by certain discrete items.

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. Our effective tax rate could also fluctuate due to the net gains and losses recognized by legal entities on certain hedges and related hedged intercompany and other transactions under our foreign exchange risk management program, 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.

Liquidity and Capital Resources

In summary, our cash flows were as follows (in millions):

	Nine Months Ended September 30,	
	2008	2009
	(unaudited)	
Net cash provided by operating activities	$ 5,730.6	$ 6,584,7
Net cash used in investing activities	(3,502.6)	(3,246.0)
Net cash provided by financing activities	76.5	74.9

At September 30, 2009, we had $22.0 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, money market mutual funds, mortgage-backed securities, and U.S. corporate securities. See Note 3 of Notes to Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion on 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, 2008 and September 30, 2009, we had unused letters of credit of $109.9 million and $101.3 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, including the impact of changes in customer buying or advertiser spending behavior that may result from the uncertain economic conditions. Also, if the banking system or the financial markets further deteriorate or remain volatile, our investment portfolio may be impacted and the value and liquidity of our investments could be adversely affected. 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 activities, deferred income taxes, and the effect of changes in working capital and other activities. Cash provided by operating activities in the nine months ended September 30, 2009 was $6,584.7 million and consisted of net income of $4,546.3

million, adjustments for non-cash items of $1,667.8 million and cash provided by working capital and other activities of $370.6 million. Adjustments for non-cash items primarily consisted of $943.2 million of depreciation and amortization expense on property and equipment, $888.1 million of stock-based compensation expense and $215.6 million of amortization of intangibles and other, partially offset by $288.3 million of deferred income taxes and $64.4 million of excess tax benefits from stock-based award activities. In addition, the increase in cash from changes in working capital activities primarily consisted of a decrease of $313.5 million in prepaid revenue share, expenses and other assets, a net increase in income taxes payable and deferred income taxes of $97.1 million, which includes the same $64.4 million of excess tax benefits from stock-based award activities, and an increase of $57.0 million in accrued revenue share primarily due to the increase in our revenues, partially offset by an increase of $126.7 million in accounts receivable due to the growth in fees billed to our advertisers. The increase in income taxes payable and deferred income taxes was primarily a result of additional tax obligations accrued, partially offset by more estimated income taxes paid during the nine months ended September 30, 2009 for the year ending December 31, 2009.

Cash provided by operating activities in the nine months ended September 30, 2008 was $5,730.6 million and consisted of net income of $3,844.4 million, adjustments for non-cash items of $1,694.2 million and cash provided by working capital and other activities of $192.0 million. Adjustments for non-cash items primarily consisted of $898.8 million of depreciation and amortization expense on property and equipment, $833.6 million of stock-based compensation expense and $215.6 million of amortization of intangibles and other, partially offset by $114.8 million of excess tax benefits from stock-based award activities and $124.6 million of deferred income taxes. In addition, the increase in cash from changes in working capital activities primarily consisted of a net increase in income taxes payable and deferred income taxes of $552.7 million, which includes the same $114.8 million of excess tax benefits from stock-based award activities included under adjustments for non-cash items and an increase in accrued expenses and other liabilities of $162.9 million. The increase in income taxes payable and deferred income taxes was primarily a result of additional tax obligations accrued. These increases were partially offset by an increase of $218.3 million in accounts receivable due to the growth in fees billed to our advertisers, a decrease in accounts payable of $152.2 million primarily due to the timing of invoice processing and payments, and an increase of $170.0 million in prepaid revenue share, expenses and other assets.

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.

Cash used in investing activities in the nine months ended September 30, 2009 of $3,246.0 million was attributable to purchases of marketable securities of $19.6 billion and capital expenditures of $588.5 million, partially offset by the net proceeds received from the sales and maturities of marketable securities of $17.0 billion. Cash used in investing activities in the nine months ended September 30, 2008 of $3,502.6 million was attributable to purchases of marketable securities of $7,814.3 million and cash consideration used in acquisitions and other investments of $3,332.6 million, primarily related to the DoubleClick acquisition, and capital expenditures of $1,990.6 million, partially offset by net proceeds received from the sales and maturities of marketable securities of $9,634.9 million.

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 make significant investments in data center operations, technology, corporate facilities, and information technology infrastructure in the remainder of 2009 and thereafter. However, the amount of our capital expenditures has fluctuated and may continue to fluctuate on a quarterly basis.

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 connection with certain acquisitions, we are obligated to make additional cash payments if certain criteria are met. As of September 30, 2009, our remaining contingent obligations related to these acquisitions was approximately $36 million, which if the criteria are met, would be recorded as part of the purchase. Since these contingent payments are based on the achievement of performance targets, actual payments may be substantially lower.

Cash provided by financing activities in the nine months ended September 30, 2009 of $74.9 million was primarily due to excess tax benefits of $64.4 million from stock-based award activities during the period which represented a portion of the $164.1 million reduction to income taxes payable that we recorded in the nine months ended September 30, 2009 related to the total direct tax benefit realized from the exercise, sale or vesting of these awards, as well as net proceeds related to stock-based award activities of $10.5 million. Cash provided by financing activities in the nine months ended September 30, 2008 of $76.5 million was primarily due to excess tax benefits of $114.8 million from stock-based award activities during the period which represented a portion of the $198.8 million reduction to income taxes payable that we recorded in the nine months ended September 30, 2008 related to the total direct tax benefit realized from the exercise, sale or vesting of these awards, partially offset by net payments related to stock-based award activities of $38.3 million.

Contractual Obligations

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. At December 31, 2008 and September 30, 2009, our aggregate outstanding non-cancelable guaranteed minimum revenue share commitments totaled $1,030.3 million and $303.3 million through 2012.

In addition, we recorded additional long-term taxes payable of $423.9 million in the nine months ended September 30, 2009 related to tax positions for which the timing of the ultimate resolution is uncertain. 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.

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.

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 activities. Our future effective tax rates could be adversely affected by the net gains and losses recognized by legal entities on certain hedges and related hedged intercompany and other transactions under our foreign exchange risk management program, 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

Our stock-based compensation expense 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 expected volatility and 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. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience. To the extent our actual forfeiture rate is different from our estimate, stock-based compensation expense is adjusted accordingly.

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.

Impairment of Marketable and Non-Marketable Securities

We periodically review our marketable securities, as well as our non-marketable equity securities, for impairment. If we conclude that any of these investments are impaired, we determine whether such impairment is other-than-temporary. Factors we consider to make such determination include the duration and severity of the impairment, the reason for the decline in value and the potential recovery period, and our intent and ability to hold an investment. If any impairment is considered other-than-temporary, we will write down the asset to its fair value and take a corresponding charge to our Consolidated Statement of Income.

Effect of Recent Accounting Pronouncements

In June 2009, the FASB issued a new accounting standard which changes the consolidation rules as they relate to variable interest entities. Specifically, the new standard makes significant changes to the model for determining who should consolidate a variable interest entity, and also addresses how often this assessment should be performed. This standard will be effective for us in the first quarter of 2010. We do not expect the adoption will have a material impact on our consolidated financial statements.

In August 2009, the FASB issued a new accounting standard which provides additional guidance on the measurement of liabilities at fair value. Specifically, when a quoted price in an active market for the identical liability is not available, the new standard requires that the fair value of a liability be measured using one or more of the valuation techniques that should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. In addition, an entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of a liability. This standard will be effective for us in the fourth quarter of 2009. We do not expect the adoption will have a material impact on our consolidated financial statements.

In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In addition, the new standard eliminates the use of the residual method of allocation and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables. In October 2009, the FASB also issued a new accounting standard which changes revenue recognition for tangible products containing software and hardware elements. Specifically, if certain requirements are met, revenue arrangements that contain tangible products with software elements that are essential to the functionality of the products are scoped out of the existing software revenue recognition accounting guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. Both standards will be effective for us in the first quarter of 2011. Early adoption is permitted. We are currently evaluating the impact of the adoption of these accounting standards on our consolidated financial statements.

Available Information

Our web site is located at www.google.com, and our investor relations web site is located at http://investor.google.com. The following filings are available through our investor relations web site after we file them with the Securities and Exchange Commission (SEC): Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and our Proxy Statements for our annual stockholder s meetings (for the last two years). We also provide a link to the section of the SEC s web site at www.sec.gov that has all of our public filings. Our Annual Reports, Quarterly Reports and Proxy Statements for the last two years are also available for download free of charge on our investor relations web site. Further, a copy of this Quarterly Report on Form 10-Q is located at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding our filings at www.sec.gov.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations web site. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of our investor relations web site. The contents of these web sites are not intended to be incorporated by reference into this Quarterly Report on Form 10-Q or in any other report or document we file, and any reference to these web sites are intended to be inactive textual references only.

ITEM 3. 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

Economic Exposure

We transact business in various foreign currencies and have significant international revenues as well as costs denominated in foreign currencies. This exposes us to foreign currency risk. We purchase foreign exchange option contracts to reduce the volatility of cash flows primarily related to forecasted revenues denominated in certain foreign currencies. The objective of the foreign exchange contracts is to better ensure that the U.S. dollar-equivalent cash flows are not adversely affected by changes in the U.S. dollar/foreign currency exchange rates. These contracts are designated as cash flow hedges. The gain on the effective portion of a cash flow hedge is initially reported as a component of accumulated other comprehensive income and subsequently reclassified into revenues when the hedged revenues are recorded or as interest and other income (expense), net, if the hedged transaction becomes probable of not occurring. Any gain after a hedge is de-designated or related to an ineffective portion of a hedge is recognized as interest and other income (expense), net, immediately.

At December 31, 2008, the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Euros were 1.9 billion (or approximately $2.6 billion) and $152.0 million; the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with British pounds were £1.1 billion (or approximately $1.8 billion) and $277.9 million; and the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Canadian dollars were C$229.7 million (or approximately $202.2 million) and $21.8 million. At September 30, 2009, the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Euros were 2.1 billion (or approximately $2.8 billion) and $38.1 million; the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with British pounds were £1.1 billion (or approximately $1.7 billion) and $65.0 million; and the notional principal and fair value of foreign exchange contracts to purchase U.S. dollars with Canadian dollars were C$294.3 million (or approximately $250.7 million) and $6.2 million. These foreign exchange options have maturities of 36 months or less. There are no other foreign exchange contracts designated as cash flow hedges. However, we may enter into similar contracts in other foreign currencies in the future.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that changes in exchange rates of 20% for our foreign currencies instruments could be experienced in the near term.

If the U.S. dollar weakened by 20%, the amount recorded in accumulated other comprehensive income before tax effect would have been approximately $30 million lower at September 30, 2009, and the total amount of expense recorded as interest and other income (expense), net, would have been approximately $68 million higher in the three months ended September 30, 2009. If the U.S. dollar strengthened by 20%, the amount recorded in accumulated other comprehensive income before tax effect would have been approximately $663 million higher at September 30, 2009, and the total amount of expense recorded as interest and other income (expense), net, would have been approximately $60 million higher in the three months ended September 30, 2009.

Transaction Exposure

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 functional currency of the subsidiary, primarily the Euro, the British pound, and the Japanese yen. Our foreign subsidiaries conduct their businesses in local currency. We have entered into foreign exchange contracts to offset the foreign exchange risk on certain monetary assets and liabilities denominated in currencies other than the local currency of the subsidiary. The notional principal of foreign exchange contracts to purchase U.S. dollars with foreign currencies was $2.6 billion and $2.2 billion at December 31, 2008 and September 30, 2009. The notional principal of foreign exchange contracts to sell U.S. dollars for foreign currencies was $54.2 million and $155.5 million at December 31, 2008 and September 30, 2009. The notional principal of foreign exchange contracts to purchase Euros with other currencies was 630.5 million (or approximately $897.6 million) and 608.8 million (or approximately $890.6 million) at December 31, 2008 and September 30, 2009.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 20% for all currencies could be experienced in the near term. These changes would have resulted in an adverse impact on income before income taxes of approximately $16 million and $68 million at December 31, 2008 and September 30, 2009. The adverse impact at December 31, 2008 and September 30, 2009 is after consideration of the offsetting effect of approximately $555 million and $437 million from forward exchange contracts in place for the months of December 2008 and September 2009. These reasonably possible adverse changes in exchange rates of 20% 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 our excess cash primarily in highly liquid debt instruments of the U.S. government and its agencies, municipalities in the U.S., time deposits, money market mutual funds, mortgage-backed securities, and corporate securities. By policy, we limit the amount of credit exposure to any one issuer.

Investments in both fixed rate and floating rate interest earning securities 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 $83 million and $172 million at December 31, 2008 and September 30, 2009.

ITEM 4. 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 of the end of the period covered by this Quarterly Report on Form 10-Q. 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 our evaluation, our chief executive officer and chief financial officer concluded that 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 to ensure we maintain an effective internal control environment. As we grow our business and add new product offerings, we continue to create new processes and controls as well as improve our existing environment to increase efficiencies. Improvements 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 Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

EPA Investigation

In February 2009, we learned of a U.S. Environmental Protection Agency (EPA) investigation into an alleged release of refrigerant at one of our smaller data facilities, which we acquired from DoubleClick, and the accuracy of related statements and records. We are cooperating with the EPA and have provided documents and other materials. The EPA investigation could result in fines, civil or criminal penalties, or other administrative action.

While we currently believe this matter will not have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows, we have noted it in accord with Securities and Exchange Commission regulations that call for disclosure of certain environmental proceedings that may result in monetary sanctions of $100,000 or more.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Industry

We face significant competition from web search providers, internet advertising companies, online service and content providers, and traditional media companies.

We face significant competition in every aspect of our business. This includes competition from web search providers, internet advertising companies, companies that provide products and services online, and companies that provide online content. Our competitors include companies ranging from large and established companies to emerging start-ups. Established companies have longer operating histories and more established relationships with customers and end users, and they can use their experience and resources against us in a variety of competitive ways, including by making acquisitions, investing aggressively in research and development, and competing aggressively for advertisers and web sites. Emerging start-ups may be able to innovate and provide products and services faster than we can.

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

In addition to competition from internet advertising companies, internet advertising companies such as Google face substantial competition from companies that offer traditional media advertising services. Most large advertisers allocate only a small portion of their overall advertising budgets to internet advertising, and we expect that large advertisers will continue to focus most of their advertising efforts on traditional media. If we fail to convince these companies to spend a portion of their advertising budgets with us, or if our existing advertisers reduce the amount they spend on our programs, our operating results will be harmed.

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

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

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

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

Our ability to continue to attract users to our web sites and satisfy existing users on our web sites.

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

Our ability to attract advertisers to our AdWords program.

Our ability to attract web sites to our AdSense program.

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

The amount of revenues and expenses generated and incurred in currencies other than U.S. dollars, and our ability to manage the resulting risk through our foreign exchange risk management program.

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

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

The results of our investments in risky projects.

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

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

- Our ability to generate significant revenues from services in which we have invested considerable time and resources, such as YouTube and Google Checkout.

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

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

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

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

We generated 97% of our revenues in both 2008 and the first nine months of 2009 from our advertisers. Our advertisers can generally terminate their contracts with us at any time. Advertisers will not continue to do business with us if their investment in advertising with us does not generate sales leads, and ultimately customers, or if we do not deliver their advertisements in an appropriate and effective manner. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. If we are unable to remain competitive and provide value to our advertisers, they may stop placing ads with us, which would negatively harm our revenues and business.

The effects of the recent global economic crisis may impact our business, operating results, or financial condition.

The recent global economic crisis has caused disruptions and extreme volatility in global financial markets and increased rates of default and bankruptcy, and has impacted levels of consumer spending. These macroeconomic developments have negatively affected and may continue to affect our business, operating results, or financial condition in a number of ways. For example, current or potential customers may delay or decrease spending with us, may have difficulty paying us, or may delay paying us for previously purchased products and services. This may also require us to increase our bad debt reserve and may affect how we recognize accounts receivables. In addition, if consumer spending continues to decrease, this may result in fewer clicks on our advertisers ads displayed on our web sites and our Google Network members web sites. Finally, if the banking system or the financial markets continue to deteriorate or remain volatile, our investment portfolio may be impacted and the value and liquidity of our investments could be adversely affected. A slow or uneven pace of economic recovery will likely continue these trends.

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

We provide advertising, web search, and other services to our Google Network members, which accounted for 31% of our revenues in 2008 and 30% of our revenues in the nine months ended September 30, 2009. Some of the participants in this network may compete with us in one or more areas. They may decide in the future to terminate their agreements with us. If our Google Network members decide to use a competitor s or their own web search or advertising services, our revenues would decline. Our agreements with a few of the largest Google Network members account for a significant portion of revenues derived from our AdSense program. If our relationship with one or more large Google Network members were terminated or renegotiated on terms less favorable to us, our business could be adversely affected.

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

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

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

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

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

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

We have acquired a number of businesses in the past, including our acquisitions of DoubleClick and Postini. We expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. These transactions could be material to our financial condition and results of operations. The process of integrating an acquired company, business, or technology has created, and will continue to create unforeseen operating difficulties and expenditures. The areas where we face risks include:

- Implementation or remediation of controls, procedures, and policies at the acquired company.
- Diversion of management time and focus from operating our business to acquisition integration challenges.
- Coordination of product, engineering, and sales and marketing functions.
- Transition of operations, users, and customers onto our existing platforms.
- Cultural challenges associated with integrating employees from the acquired company into our organization.
- Retention of employees from the businesses we acquire.
- Integration of the acquired company s accounting, management information, human resource, and other administrative systems.
- Liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities.

Litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties.

In the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries.

Failure to successfully further develop the acquired technology.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally.

Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, or amortization expenses, or write-offs of goodwill, any of which could harm our financial condition. Also, the anticipated benefit of many of our acquisitions may not materialize. For example, we have yet to realize significant revenue benefits from our acquisition of YouTube.

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

International revenues accounted for approximately 51% of our total revenues in 2008 and approximately 53% of our total revenues in the first nine months of 2009. More than half of our user traffic came from outside the U.S. in the first nine months of 2009. We have limited experience with operations outside the U.S. and our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to a number of risks, including the following:

- Challenges caused by distance, language, and cultural differences and by doing business with foreign agencies and governments.
- Longer payment cycles in some countries.
- Uncertainty regarding liability for services and content.
- Credit risk and higher levels of payment fraud.
- Currency exchange rate fluctuations and our ability to manage these fluctuations under our foreign exchange risk management program.
- Foreign exchange controls that might prevent us from repatriating cash earned in countries outside the U.S.
- Import and export requirements that may prevent us from shipping products or providing services to a particular market and may increase our operating costs.
- Potentially adverse tax consequences.
- Higher costs associated with doing business internationally.
- Different employee/employer relationships and the existence of workers councils and labor unions.

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

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

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

Although we seek to obtain patent protection for our innovations, it is possible we may not be able to protect some of these innovations. Changes in patent law, such as changes in the law regarding patentable subject matter, can also impact our ability to obtain patent protection for our innovations. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable.

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

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

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

Companies in the internet, technology, and media industries own large numbers of patents, copyrights, trademarks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. As we have grown, the intellectual property rights claims against us have increased and may continue to increase. Our products, services, and technologies may not be able to withstand any third-party claims and regardless of the merits of the claim, intellectual property claims are often time-consuming and expensive to litigate or settle. In addition, to the extent claims against us are successful, we may have to pay substantial monetary damages or discontinue any of our services or practices that are found to be in violation of another party s rights.

We also may have to seek a license to continue such practices, which may significantly increase our operating expenses. In addition, many of our agreements with our Google Network members and other partners require us to indemnify these members for certain third-party intellectual property infringement claims, which would increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling in any such claims.

Companies have filed trademark infringement and related claims against us over the display of ads in response to user queries that include trademark terms. The outcomes of these lawsuits have differed from jurisdiction to jurisdiction. We currently have three cases pending at the European Court of Justice, which will address questions regarding whether advertisers and search engines can be held liable for use of trademarked terms in keyword advertising. We are litigating, or have recently litigated similar issues in other cases, in the U.S., Australia, Austria, Brazil, Chile, China, France, Germany, Israel, Italy, Taiwan, and the United Kingdom.

We have also had copyright claims filed against us by companies 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 the rights of others. In the U.S. we announced a settlement with the Authors Guild and the Association of American Publishers. However, this class action settlement is subject to approval by the U.S. District Court for the Southern District of New York, and we may be subject to additional claims with respect to Google Book Search both in the U.S. and in other parts of the world. 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 revenues for us or otherwise harm our business. In addition, any time one of our products or services links to or hosts material in which others allegedly own copyrights, we face the risk of being sued for copyright infringement or related claims. Because these products and services comprise the majority of our products and services, the risk of harm from such lawsuits could be substantial.

We have also had patent lawsuits filed against us alleging that certain of our products and services, including Google Web Search, Google AdWords, Google AdSense, Google Talk, and Google Chrome, infringe patents held by others. In addition, the number of demands for license fees and the dollar amounts associated with each request continue to increase. Adverse results in these lawsuits, or our decision to license patents based upon these demands, may result in substantial costs and, in the case of adverse litigation rulings, could prevent us from offering certain features, functionalities, products, or services, which could result in a loss of revenues for us or otherwise harm our business.

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

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

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

Regulatory authorities around the world are considering a number of legislative proposals concerning data protection. In addition, the interpretation and application of data protection laws in Europe and elsewhere are still uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

A variety of new and existing U.S. and foreign laws could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in the U.S. and abroad that are costly to comply with, can result in negative publicity and diversion of management time and effort, and can subject us to claims or other remedies. Many of these laws were adopted prior to the advent of the internet and related technologies and, as a result, do not contemplate or address the unique issues of the internet and related technologies. The laws that do reference the internet are being interpreted by the courts, but their applicability and scope remain uncertain. For example, the laws relating to the liability of providers of online services are currently unsettled both within the U.S. and abroad. Claims have been threatened and filed under both U.S. and foreign law for defamation, libel, slander, invasion of privacy and other tort claims, unlawful activity, copyright and trademark infringement, or other theories based on the nature and content of the materials searched and the ads posted by our users, our products and services, or content generated by our users.

In addition, the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for listing or linking to third-party web sites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. Various U.S. and international laws restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. In the area of data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as California s Information Practices Act. We face similar risks and costs as our products and services are offered in international markets and may be subject to additional regulations.

We are subject to increased regulatory scrutiny that may negatively impact our business.

The growth of our company and our expansion into a variety of new fields implicate a variety of new regulatory issues and may subject us to increased regulatory scrutiny, particularly in the U.S. and Europe. Moreover, our competitors have employed and will likely continue to employ significant resources to shape the legal and regulatory regimes in countries where we have significant operations. Legislators and regulators may make legal and regulatory changes, or interpret and apply existing laws, in ways that make our products and services less useful to our users, require us to incur substantial costs, or change our business practices. These changes or increased costs could negatively impact our business.

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

The number of people who access the internet through devices other than personal computers, including mobile telephones, personal digital assistants (PDAs), smart phones, handheld computers, and video game consoles, as well as television set-top devices, has increased dramatically in the past few years. The lower resolution, functionality, and memory associated with alternative devices make the use of our products and services through such devices more difficult and the versions of our products and services developed for these devices may not be compelling to users, manufacturers, or distributors of alternative devices. Each manufacturer or distributor may establish unique technical standards for its devices, and our products and services may not work or be viewable on these devices as a result. As we have limited experience to date in operating versions of our products and services, including Google Mobile and Android, developed or optimized for users of alternative devices and as new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on these alternative devices and we may need to devote significant resources to the creation, support, and maintenance of such devices. If we are unable to attract and retain a substantial number of alternative device manufacturers, distributors, and users to our products and services or if we are slow to develop products and technologies that are more compatible with non-PC devices, we will fail to capture a significant share of an increasingly important portion of the market for online services, which could adversely affect our business.

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

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

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

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

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

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

If we fail to detect click fraud or other invalid clicks, we could lose the confidence of our advertisers, which would cause our business to suffer.

We are exposed to the risk of fraudulent clicks and other invalid clicks on our ads from a variety of potential sources. We have regularly refunded fees that our advertisers have paid to us that were later attributed to click fraud and other invalid clicks, and we expect to do so in the future. Invalid clicks are clicks that we have determined are not intended by the user to link to the underlying content, such as inadvertent clicks on the same ad twice and clicks resulting from click fraud. Click fraud occurs when a user intentionally clicks on a Google AdWords ad displayed on a web site for a reason other than to view the underlying content. While we have implemented systems to identify and reduce fraudulent and invalid clicks, an increase in refunds could negatively affect our profitability and damage our brand.

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

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

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

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

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

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

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

Our performance largely depends on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of our organization. Competition in our industry for qualified employees is intense, and certain of our competitors have directly targeted our employees. In addition, our compensation arrangements, such as our equity award programs, may not always be successful in attracting new employees and retaining and motivating our existing employees. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

In addition, we believe that our corporate culture fosters innovation, creativity, and teamwork. As our organization grows, and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

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

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

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

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

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

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

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

As we expand our international operations, more of our customers may pay us in foreign currencies. Since we conduct business in currencies other than U.S. dollars but report our financial results in U.S. dollars, we face exposure to fluctuations in currency exchange rates. For instance, if currency exchange rates were to change unfavorably, the U.S. dollar equivalent of our operating income recorded in foreign currencies would be diminished. Hedging strategies, such as forward contracts, options, and foreign exchange swaps that we have implemented or may implement to mitigate this risk may not reduce or completely offset our exposure to foreign exchange fluctuations. Additionally, hedging programs expose us to risks that could adversely affect our financial results, including the following:

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

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

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

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

To the extent we recognize a gain on a hedge transaction in one of our subsidiaries that is subject to a high statutory tax rate, and a loss on the related hedged transaction that is subject to a lower rate, our effective tax rate would be higher.

Significant fluctuations in foreign exchange rates could greatly increase our hedging costs.

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

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

We may have exposure to greater than anticipated tax liabilities.

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

Risks Related to Ownership of Our Common Stock

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

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

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

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

Recommendations by securities analysts or changes in earnings estimates.

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

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

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

Sales of stock by us or by our stockholders.

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

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

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

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

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

Our Class B common stock has 10 votes per share and our Class A common stock has one vote per share. As of September 30, 2009, our founders, executive officers, and directors (and their affiliates) together owned shares of Class A common stock, Class B common stock, and other equity interests representing approximately 71% of the voting power of our outstanding capital stock. In particular, as of September 30, 2009, our two founders and our CEO, Larry, Sergey, and Eric, owned approximately 90% of our outstanding Class B common stock, representing approximately 68% of the voting power of our outstanding capital stock. Larry, Sergey, and Eric therefore have significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated control limits our stockholders ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our Class A common stock could be adversely affected.

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

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

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

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

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

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

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

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

As a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Our board of directors could rely on Delaware law to prevent or delay an acquisition of us.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Results of Google s Transferable Stock Option Program

Under our TSO program, which we launched in April 2007, eligible employees are able to sell vested stock options to participating financial institutions in an online auction as an alternative to exercising options in the traditional method and then selling the underlying shares. The following table provides information with respect to sales by our employees of TSOs during the three months ended September 30, 2009:

	Aggregate Amounts			Weighted-Average Per Share Amounts		
Period (1)	**Number of Shares Underlying TSOs Sold**	**Sale Price of TSOs Sold (in thousands)**	**TSO Premium (2) (in thousands)**	**Exercise Price of TSOs Sold**	**Sale Price of TSOs Sold**	**TSO Premium (2)**
July 1-31	67,682	$ 12,869	$ 1,692	$ 282.47	$ 190.14	$ 25.01
August 1-31	95,799	19,581	2,379	286.30	204.40	24.83
September 1-30						
Total (except weighted-average amounts)	163,481	$ 32,450	$ 4,071	$ 284.71	$ 198.50	$ 24.90

(1) The TSO program is generally active during regular trading hours for The Nasdaq Stock Market when Google s trading window is open. However, we have the right to suspend the TSO program at any time for any reason, including for maintenance and other technical reasons.

(2) TSO premium is calculated as the difference between (a) the sale price of the TSO and (b) the intrinsic value of the TSO, which we define as the excess, if any, of the price of our Class A common stock at the time of the sale over the exercise price of the TSO.

In April 2009, we amended our TSO program to allow participation by executive officers (other than Eric Schmidt, Sergey Brin, and Larry Page) in our TSO program. The following table provides information with respect to sales by our executive officers of TSOs during the three months ended September 30, 2009:

		Aggregate Amounts	
Executive Officer	**Number of Shares Underlying TSOs Sold**	**Sale Price of TSOs Sold (in thousands)**	**TSO Premium (in thousands)**
Nikesh Arora	781	$ 137	$ 23

Total	781	$	137	$	23

ITEM 6. EXHIBITS

Exhibit Number		Description
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
101.INS	**	XBRL Instance Document
101.SCH	**	XBRL Taxonomy Extension Schema Document
101.CAL	**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

Furnished herewith.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GOOGLE INC.

Date: November 4, 2009	By:	/s/ PATRICK PICHETTE
		Patrick Pichette
		Senior Vice President and Chief Financial Officer
		(Principal Financial Officer and duly authorized signatory)

53

EXHIBIT INDEX

Exhibit Number		**Description**
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
101.INS	**	XBRL Instance Document
101.SCH	**	XBRL Taxonomy Extension Schema Document
101.CAL	**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

Furnished herewith.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.