

September 18, 2006

Rating Information

Sector Rating	Market Weight
Target Price YE '06	\$525.00
Long-Term Growth	34.21%

Trading Data

52-Wk Range	\$290.68 - \$475.11
Market Cap.	\$124,751 MM
Shares Out.	304.4 MM
Dividend Yield	0.0%
Avg Daily Vol.	9,490,000
Float	192.0 MM

Source: FactSet

Fundamental Data

EV/EBITDA	33.0x
Enterprise Value	\$124,751.0 MM
LT Debt to Total Cap.	0.0%
Book Value	\$43.90

Source: FactSet

GOOGLE (GOOG-\$414.69-Outperform)

Google Regains Market Share - A Mild Positive

- Our Take.** Following the loss of domestic market share in July 06 from June 06, Google has regained (and surpassed) the lost share in August 06, according to the data released by comScore. We note that this followed a similar pattern in the corresponding months of 2005 where Google lost share in July 05 but regained share in August 05. We view this as a mild positive for Google given the negative reaction in the stock following the news of the lost share for July 06. In addition, this brings to light our thinking that investors should not place too much emphasis on month-to-month fluctuations in market share for the online search cos. Nonetheless, the overall number of searches on Google for July and August decreased 5% from the similar period in 2Q06 in what is their seasonally slowest period, but is up a healthy 54% YoY. Yahoo! on the other hand lost modest market share in August 06 but is still maintaining strong share in the 28-29% range. Yahoo!'s searches for the 2 months of 3Q declined 3% from 2Q but grew 23% YoY. Ask Network's share improved in August on a 6% Seq. and 53% YoY increase in searches on Ask.com (also a mild positive for IAC). Overall searches for the industry grew 29% YoY over the 2 months of 3Q indicating that online search usage remains healthy.
- The Numbers.** Google's market share grew to 44.1% in Aug 06 from 43.7% in July 06 and 37.3% in the year ago period. The number of searches on Google.com grew YoY at 51.8% compared to 23.9% for Yahoo, 1.8 % for MSN, -26% for AOL, 18.4 % for Ask, and 28.3 % for the industry. Yahoo's market share declined modestly to 28.7 % from 28.8% in July 06 and 29.7% in August 05. MSN's market share also declined modestly to 12.5% from 12.8% in July 06 and 15.8% in the year ago period. Ask.com's market share grew to 5.5% from 5.4% in July 06 and 6% in the year ago period.

Price Performance Chart



Source: FactSet

Securities in this report priced as of:
September 18, 2006 16:00 ET

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Sector View: We are bullish on the fundamentals of the online advertising industry.

GAAP Estimates Post Option Expense †(All values are in USD)

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	P/E
2005	1.29	1.19	1.32	1.22	5.02	82.6x
2006	1.95	2.33	2.21E	2.25E	8.74E	47.5x
2007					12.64E	32.8x

Revenue (All values are in USD)

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	P/S
2005	794.0	890.0	1,048.0	1,290.0	4,023.0	31.0x
2006	1,531.0	1,671.0	1,809.0E	2,022.0E	7,033.0E	17.7x
2007					10,265.0E	12.2x

† All numbers are after stock based compensation expense. Beginning with 2006 estimates, this expense will be normalized consistent with BSC option expense policy. Prior years are not necessarily normalized. Outside data provider may not conform to this policy.

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Domestic Market Share of Searches	Q105	Q205	Q305	Q405	Q106	Q206	Jul-06	Aug-06
Google	35.9%	37.0%	37.1%	39.8%	42.2%	44.0%	43.7%	44.1%
Yahoo	31.2%	30.4%	30.0%	29.3%	28.1%	28.2%	28.8%	28.7%
MSN	16.3%	15.6%	15.6%	14.3%	13.5%	12.9%	12.8%	12.5%
AOL	9.1%	9.2%	9.5%	8.5%	7.8%	6.3%	5.9%	5.6%
Ask	5.3%	6.1%	6.2%	6.6%	5.8%	5.4%	5.4%	5.5%
Infospace	1.1%	0.9%	0.9%	0.8%	0.6%	0.6%	0.5%	0.5%
Lycos	0.8%	0.5%	0.5%	0.4%	0.2%	0.1%	0.1%	0.1%
Lop.com	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mamma.com	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CNET	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
New York Times Digital (About.com)		0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
A9.com		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Industry	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Searches Sequential Growth %	Q105	Q205	Q305	Q405	Q106	Q206	Jul-06	Aug-06
Google	14.3%	-0.1%	-2.2%	11.7%	20.8%	17.2%	-4.4%	4.2%
Yahoo	7.6%	-5.3%	-3.9%	1.8%	9.3%	12.8%	-1.4%	3.1%
MSN	12.2%	-6.8%	-2.7%	-4.4%	7.2%	7.9%	-2.0%	1.2%
AOL	8.1%	-2.3%	1.1%	-7.1%	4.5%	-9.6%	2.5%	-1.8%
Ask	8.6%	11.8%	-1.7%	11.2%	1.3%	3.7%	3.5%	6.0%
Infospace	-2.7%	-19.7%	-3.3%	-7.3%	-11.9%	6.8%	-6.9%	4.1%
Lycos	-9.4%	-35.7%	-8.3%	-15.1%	-41.7%	-32.1%	0.8%	28.4%
Lop.com	-68.0%	-26.6%	-66.0%	-35.1%	-53.9%	-25.9%	-6.5%	45.8%
Mamma.com	3.3%	-16.8%	-70.8%	110.2%	-3.6%	23.4%	-2.2%	14.7%
CNET	-12.1%	-11.9%	-27.7%	15.2%	-12.3%	-14.7%	6.2%	-93.7%
New York Times Digital (About.com)		na	-3.9%	19.6%	1.4%	1.6%	-2.6%	19.3%
A9.com		na	17.7%	4.0%	-55.7%	40.3%	29.1%	-13.5%
Industry	10.4%	-2.9%	-2.6%	4.3%	14.0%	12.3%	-2.4%	3.4%
Searches YoY Growth %	Q105	Q205	Q305	Q405	Q106	Q206	Jul-06	Jul-06
Google		37.6%	28.0%	24.7%	31.9%	54.8%	55.7%	51.8%
Yahoo		41.6%	20.4%	-0.3%	1.3%	20.7%	22.8%	23.9%
MSN		42.0%	30.4%	-2.7%	-7.1%	7.5%	7.9%	1.8%
AOL		-6.4%	10.2%	-0.8%	-4.1%	-11.2%	-23.2%	-26.0%
Ask		156.1%	27.3%	32.8%	23.9%	14.9%	15.5%	18.4%
Infospace		-10.0%	-20.2%	-30.0%	-36.7%	-15.7%	-25.9%	-20.3%
Lycos		-20.6%	-20.5%	-54.7%	-70.9%	-69.2%	-63.7%	-68.6%
Lop.com		-81.1%	-92.9%	-94.8%	-92.5%	-86.8%	-86.8%	-74.0%
Mamma.com		-33.1%	-78.9%	-47.3%	-50.8%	-27.1%	-31.4%	NA
CNET		-40.4%	-50.2%	-35.5%	-35.6%	-37.7%	-11.9%	-94.3%
New York Times Digital (About.com)		NA	NA	NA	NA	18.4%	12.6%	17.8%
A9.com		NA	NA	NA	NA	-23.9%	-24.7%	-34.0%
Industry		31.4%	22.6%	8.8%	12.4%	30.1%	30.0%	28.3%

Source: comScore; Bear Stearns

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Robert Peck

Companies Analyzed

* GOOGLE (GOOG) - \$ 414.69 (as of September 18, 2006 16:00 ET) - Outperform

Price Target ('06) : \$ 525.00

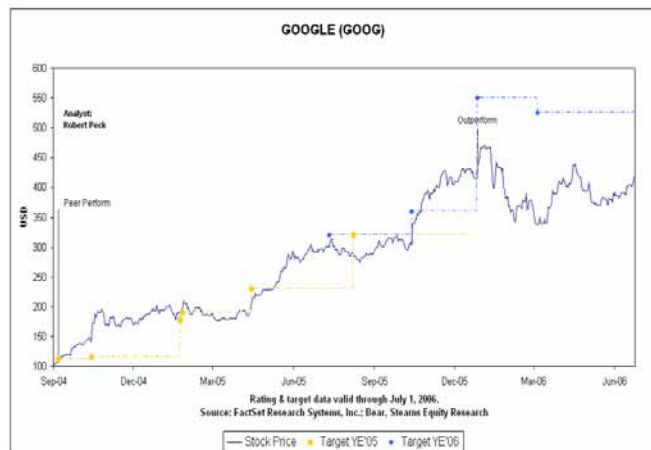
Risk(s) to Price Target- Existing and emerging competition in the online advertising industry

Valuation Methodology- DCF with a WACC of 10%.

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Peer Perform (P) - Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.

Underperform (U) - Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

Ratings for Sectors (vs. regional broader market index):

Market Overweight (MO) - Expect the industry to perform better than the primary market index for the region (S&P 500 in the US) over the next 12 months.

Market Weight (MW) - Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the US) over the next 12 months.

Market Underweight (MU) - Expect the industry to underperform the primary market index for the region (S&P 500 in the US) over the next 12 months.

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Peer Perform (Neutral): 45.7 / 9.4

Underperform (Sell): 8.7 / 2.0

Robert Peck, Consumer Internet

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