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OVERVIEW

GOOG reported 2Q09 gross revenue of \$5.5b.

FINANCIAL DATA

A. Key Data From Call 1. 2Q09 gross revenue = \$5.5b. 2. 2Q09 CapEx = \$139m.

PRESENTATION SUMMARY

S1. Annotation (M.S.) 1. Note: 1. Certain financial measures like EPS, net income, operating margin and operating income are non-GAAP, adjusted to exclude charges relating to stock-based compensation.

S2. 2Q09 Business Review (E.S.) 1. Highlights: 1. Good qtr. with 3% YoverY growth. 2. Business appears to have stabilized despite still weak economic environment. 3. Implemented careful cost controls to help performance. 1. Goal for last few quarters has been making business more efficient. 4. Will continue to invest in innovation. 1. Just announced Chrome OS netbooks, effort to rethink what an operating system should be based on lightning fast browser technology, Chrome. 2. Innovation is key for long-term growth in core and new businesses. 3. Did more than 100 search quality improvements. 4. Just introduced Google Squared, which automatically fetches and [sorts] facts and data from across web on given topic. 5. Has another feature called Search Options. 5. Ads: 1. Quality and sales drove healthy revenue growth despite tough economic environment. 2. Gets better as Co. developed new ways of identifying high quality development ads. 3. Experimenting with innovative ad formats for search, particularly in local products and video areas, which should help a lot in some of these new businesses. 6. Sales: 1. Has been much more rigorous due to management, measurement, and focusing resources on high potential areas like: 1. Advertiser acquisition. 2. Better tools

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to identify largest opportunity for individual customers. 7. New Business: 1. Display, particularly including YouTube, performed well. 2. Helping marketers and agencies create great ads easily like: 1. Double click studio. 2. Tools allowing customers to build end-to-end rich ad campaigns. 3. Focusing to innovate in Mobile and Android. 1. Expects somewhere between 18-20 Android powered phones on market by year-end. 2. Motorola mobile handset division moved all 15,000 users to GOOG. 3. 75 new schools for apps education. 4. Deployed 30,000 employees at Valeo, (indiscernible) another 10,000 employees.

S3. 2Q09 Financial Review (P.P.) 1. Revenue: 1. Solid revenue growth and good expense management. 2. Gross revenue grew 3% YoverY to \$5.5b. 1. Relative strength across business despite: 1. Weak macroeconomic environment. 2. Dollar that is still quite strong vs. last year. 2. Applying last year's exchange rates to 2Q09 revenue, would have been roughly \$500m higher. 3. Recognized \$124m of benefits from hedging program to partially compensate. 3. Google.com contributed majority of total YoverY growth, up 3.5% YoverY to \$3.7b with continued healthy traffic growth. 1. Saw signs of strength in certain consumer verticals like shopping, computer, and electronics. 2. Others like finance continue to be relatively weak. 3. Benefited from number of ads quality launches. 4. AdSense, up 2% YoverY to \$1.7b. 1. Solid results for content in particular. 2. Smaller partners performed well. 3. Display business experienced strong YoverY growth. 5. Global aggregate paid click growth: 1. Up 15% YoverY. 2. Down 2% QoverQ for seasonality. 6. Aggregate costs per click growth: 1. Down 13% YoverY. 2. Up 5% QoverQ. 3. FX had: 1. Negative impact on YoverY growth. 2. Positive impact QoverQ due to weakening of US dollar vs. 1Q09. 7. Geographic Performance: 1. US, up 2% YoverY to \$2.6b. 2. International, accounted for 52%(Sic-see press release) or \$2.9b of total revenue. 3. UK, down 8% YoverY to \$715m. 1. Negatively impacted by FX and ongoing macroeconomic weakness. 2. Partially offset by revenues from hedging program. 2. Expenses: 1. Traffic acquisition costs, \$1.5b or 27% of total advertising revenue. 2. Other cost of revenue, \$655m including \$14m in stock-based compensation. 3. Other OpEx, \$1.5b including approx. \$279m in stock-based compensation. 1. OpEx, lower by nearly \$120m YoverY and flat QoverQ. 1. Non-GAAP operating profit, excluding stock-based compensation, increased to \$2.2b vs. \$1.9b last year. 2. Non-GAAP operating margin, 39.2%. 4. Managed costs prudently while fully funding strategic growth areas in search, display, mobile, and apps. 5. Had approx. 20,000 full-time employees at 2Q09-end, down approx. 375 from 1Q09-end. 1. Even though continuing to hire in many business areas, ended with decrease primarily related to reduction in sales and marketing positions announced at 1Q09-end. 3. Cash Management: 1. Other income and expense (OI&E), net expense of \$18m. 2. For past year and most of 2Q09, focused on capital preservation. 1. Believes this was right thing to do given recent macroeconomic environment. 2. Realized lower yields on investments. 3. Realized gains on marketable securities, \$18m. 3. High volatility relative to options strike prices required Co. to accelerate hedging expenses as per FAS 133 rules. 1. Impact on OI&E on FX program, roughly equivalent from last qtr. 2. Continued to recognize benefits from hedging program while benefiting from slightly weaker US dollar vs. 1Q09. 4. Cash flow hedging program allowed to recognize approx. \$124m benefit to international revenue. 5. Effective tax rate, 20%. 1. Any change to mix of earnings between domestic and international subsidiaries and effect on earnings of various hedging activities and related hedged items have effect on tax rate. 6. Operating cash flow, \$1.6b. 7. CapEx, \$139m. 1. While recent trend in CapEx has been declining, will continue to make significant investments in CapEx. 8. Free cash flow, \$1.5b. 4. Summary: 1. Pleased with results, especially despite: 1. Expected seasonality. 2. Economic situation. 3. YoverY FX fluctuations. 2. Disciplined about costs while staying focused on fully investing on long-term opportunities in core business; display, mobile, and apps. 3. 3Q tends to be impacted by summer seasonality.

S4. 2Q09 Operational Review (J.R.) 1. Key Launches: 1. To better serve power users, launched new Search Options feature. 1. Lets one slice and dice search results in different ways like by time or type of result. 2. Basic user principle, fast is better than slow. 3. Continues to focus on reducing search latency worldwide, but speed is key for all other products. 2. Launched number of improvements with Picasa. 1. One improvement allows to run slide show of pictures uploaded to web and does it quickly as if pictures were stored on computer. 3. Has policy of ship fast and iterate often. 1. Redesigned Google Labs and releasing new labs features about twice per month. 2. Gmail, pushing out roughly one new feature a week like automatic message translation. 4. Entire suite of apps products is robust enough. 1. Taken out of beta last week. 5. Runs product development by encouraging teams to make big product bets on key technical insights. 1. Believes most innovative products historically considering Search, Maps, Gmail, News, and Chrome were based on technical breakthroughs or bets. 6. Recently became bullish on new emerging standard called HTML 5. 1. Helping to make web the platform for powerful and rich applications. 2. Especially important in mobile where high-end phones with rich browsers are becoming the norm. 3. This qtr., launched mobile versions of Gmail and mobile web maps that run in browser using HTML 5. 7. Making another technical bet with Google Chrome OS. 1. Whole new generation of web-based apps demand much better faster user experience. 8. Innovating and driving monetization with mobile and YouTube. 1. Mobile monetization picked up good bit of momentum as search traffic

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grew driven mostly by smart phones. 1. Seeing users on these high-end phones are active and engaged beyond search so display advertising on these phones is emerging as an interesting mechanism. 2. On YouTube, monetized views more than tripled in past year. 1. Now monetizing billions of views of partner videos every month and actively promoting featured partner videos on home watch and search pages. 9. One innovative area is ads quality. 1. Shipped more than a dozen improvements this qtr. 10. Wave, totally new way to communicate and collaborate online. 1. Whole product was conceived and developed by small team in Australia. 1. Worked completely autonomously. 2. Called the project Walkabout. 11. Android, Chrome, Wave, and Chrome OS are all Open Source. 1. This kind of open innovation helps create next generation of breakthroughs.

## QUESTION AND ANSWER SUMMARY

OPERATOR: Thank you. (Operator Instructions). And we will take our first question from Imran Khan from JPMorgan.

IMRAN KHAN, ANALYST, JPMORGAN CHASE & CO.: Two questions, one, on the mobile application site, I think you talked about that the mobile search volume has increased significantly. Could you help us understand the revenue for search difference on the mobile versus the web, and do you think it will cannibalize your search on the desktop?

And secondly, some could argue that Google solidified it's search market share through some of the distribution deal, like Ask and AOL. Considering one of your competitors launched a new search technology, how worried are you that they could be potentially aggressive to win back some of those distribution deals, and how aggressive you will be to hold back to those distribution deals?

ERIC SCHMIDT, CEO, GOOGLE: Imran, thanks for your questions. On the mobile search side, one of the key things we have done in the last few months, is we have started to show the desktop ads. It turns out that the separate mobile ads have their own formats. Typically there wasn't enough demand, there weren't enough kind of creatives, and so forth.

So we started showing the desktop ads on the mobile browsers of high quality, and these of course, include the iPhone, and the Android phone, and anything that is a web kit inspired browser. All of a sudden we started seeing a tremendous number of searches, and also very good click-through rates. So they monetize at a similar level if they are desk-top-based, as if we are sharing the same auction, it makes sense over time that those ads should perform better than on PCs, because on a mobile device, we know more about the person, and we can have an even more targeted ad, but we don't do that today.

JONATHAN ROSENBERG, SVP, PRODUCT MANAGEMENT, GOOGLE: Yes, this is Jonathan. The other thing that I would say yes, specifically about cannibalization, I don't think there really is a cannibalization dynamic. We see that mobile searches tend to compliment desktop volume. Mobile goes up when people are away from their desks, so weekend tends to be higher for mobile traffic. Of course the reverse is true for the desktop.

On the second question, I think it is kind of too early to tell from a market share perspective what is going to play out in the long run. We certainly haven't seen any large shift in share to date.

IMRAN KHAN: Thank you.

PATRICK PICHETTE, CFO, GOOGLE: We will go to the next question, please.

OPERATOR: And we will take our next question from Mark Mahaney.

MARK MAHANEY, ANALYST, CITIGROUP: Thank you. Also two questions. Eric, you mentioned you think the business is stabilizing. What are one of the two most important things you look at to make that call, as to whether business is stabilizing or not? And then for Patrick, there are a lot of cost efficiencies that have been gained over the last couple of quarters. Can you talk to us about what the cost structure looks like coming out of the recession, whenever that is, to what extent should we believe that the cost efficiencies will stay in place post the recession, or is this more temporary efficiencies? Thank you.

ERIC SCHMIDT: On the stabilizing question, we a quarter ago, we had no idea where the bottom was. We started off the year, and all of a sudden our metrics were off, and it became clear that starting roughly Christmas, people were spending more time searching, and when they purchased products, they were purchasing products of less value.

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Furthermore, when they did so, the whole process just took more time. It appears as though, although the RPMs have not fully recovered, the other aspects of behavior have in fact come back.

And with the notable exception of the financial vertical, the other verticals in particular, shopping and travel, which had been significantly effected, appear to be recovering. So the sum of those tells us to say the word 'stabilizing.' We are not at the moment looking at that downward spiral that we thought we might see six months ago.

MARK MAHANEY: On the second question--

ERIC SCHMIDT: Let's ask Nikesh to offer some perspective on how this is playing out.

NIKESH ARORA, PRESIDENT, GLOBAL SALES OPERATIONS, BUSINESS DEV., GOOGLE: Yes, just to add to what Eric has already said, if you look at it from the geographical basis as well, we are seeing stabilizing in some of our key markets around the world. Also from an advertiser point of view, earlier in the year there seemed to be more uncertainty amongst our advertisers, who seem to now have come back and continue to go back and bid for major categories and major verticals. The small advertisers have stayed pretty much consistent throughout this process, because they are very ROI focused.

They understand the value of search. They understand what they are investing for. Large advertisers have sort of watched, and wanted to watch and wait for a while, who seem to have come back to the table, and that is where we are seeing the stabilization from the advertisers side as well.

PATRICK PICHETTE: So that covers the first question. Let me jump on the second one. I think, I think we can be really proud at Google about how Googlers have managed responsibly in the last two or three or four quarters, if you think everything that the economy has thrown at us. We have managed to keep the right balance too, between the Google culture of being frugal, but generous environment. That is really that portrays the place, and we didn't lose our kind of magic around that.

And most of all, I think that we are managing the Company to best position itself for the long-term growth. So it is clear we are able to be disciplined about costs, but at the same time, fully investing in our long-term opportunities. So I think that what we can take away from the last few quarters is, we have that ability, and we continue to manage it that way. So we have the flexibility we need.

MARK MAHANEY: Thanks.

PATRICK PICHETTE: We will go to the next question, please.

OPERATOR: And we will take our next question from Justin Post from BOA Merrill Lynch.

JUSTIN POST, ANALYST, BANK OF AMERICA: Thank you. My question is on paid clicks and CPCs. First, on CPCs, it looks like if we back out currency at 44 million, they were up 4% quarter-over-quarter. Is there any kind of sign of stabilization in that number, or is that due to mix and seasonality?

And the second thing is paid clicks, 15% growth. Could you talk a little bit about the mix? Are the higher value clicks, in say the US and UK, growing slower than maybe some of the lower value clicks internationally? Could that be a long-term CPC pressure, or are paid clicks growing pretty even across your entire system? Thank you.

JONATHAN ROSENBERG: This is Jonathan. Just back to the clicks across the system, I think the growth is more seasonality and mix. One of the things that we see is that Brazil and China, for example, are pretty significant, and probably have disproportionately more clicks. So I think we are seeing a mix of clicks from the high CPC Western European countries, and US seeing less relative to some of the growing markets. So that overall is having downward pressure on CPC. I think the bids tended to decline more earlier this year, and are no longer declining now as a general rule across the board.

JUSTIN POST: Thank you.

PATRICK PICHETTE: Thanks. We will go to the next question, please.

OPERATOR: And we will take our next question from Christa Quarles from Thomas Weisel Partners.

CHRISTA QUARLES, ANALYST, THOMAS WEISEL PARTNERS: Hi. My question is on vertical search in the context of Twitter and it's realtime searching, and even attempt to carve out shopping, travel, local, et cetera. So my question is, one, how do you think about the concept of vertical search? Two, how strong do you believe your offerings

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currently are, and particularly how well you are merchandising those offerings to consumers? And three, do you still see sort of big monetization improvements as you think about vertical search and improvements in UI?

ERIC SCHMIDT: Historically we have not used the term 'vertical search' because Google attempts to sort of answer the question without categorizing it as this category or that. Other people have said we are going to offer a specialty service around this or that. So we work very hard to sort of take the query without bias. This is the way it plays out. So with respect to vertical search head room, there is plenty of such head room, especially as our ads products get better.

And so the reason we mentioned, for example, that in travel, things have come back, but finance has not, because that does in fact effect the revenue. We understand that. But we try not to sort of say there is a travel site, or what have you. Longer term, you never know what kind of innovation we can do to do that. It has been observed, for example, in some of these verticals, the ads are particularly more valuable than even some of the search results. We have not yet thought through what we will do with that observation.

JONATHAN ROSENBERG: I think it is the case, this is Jonathan, on the vertical side that there is a lot of opportunity to get incremental monetization gains, where you can further qualify the leads better for the advertisers.

So for example, the finance area and the travel area, are areas where there is a lot of opportunity to do that, so that you end up putting more information in the ad, and then incrementally getting more information from the customer, so that you can further qualify whether or not the customer in the finance area is interested in a particular type of mortgage, and then you send them to an advertiser with whom they are more likely to consummate a specific transaction, that that advertiser is willing to pay for. So there is a lot of opportunity there.

CHRISTA QUARLES: That is helpful. Thank you.

PATRICK PICHETTE: Thank you. We will go to the next question, please.

OPERATOR: And we will go next to Ben Schachter from Broadpoint AmTech.

BEN SCHACHTER, ANALYST, BROADPOINT AMTECH: So years ago, I recall Eric discussing the idea that advertisers should be thinking about their Google spend as COGS, and not sales and marketing. I guess it was the notion that you give us a dollar, we will give you X dollars in sales. So now with more video images and structured data appearing in this, I am just wondering, should we expect to begin to see new monetization methods beyond just a traditional text-based CPC, actually appearing within the sort of basic Google.com search? Thanks.

PATRICK PICHETTE: I will let Nikesh answer that.

NIKESH ARORA: Yes, in fact thank you very much, Patrick. In fact we are beginning to see other forms of advertising and monetization, we already have CPM based monetization on our video properties, we have CPC based monetization on our display networks. We have even CPA-based monetization on certain parts of our display networks, so you are beginning to see different forms of monetization come forth in the online arena.

And as we go forward, as more and more media begins to shift towards online, we are going to see different forms of monetization. Most recently, we are beginning to see more and more branded advertising on YouTube in our various display properties. So, yes, the trend is in that direction.

PATRICK PICHETTE: Thank you. Let's go to the next question, please.

OPERATOR: And we will take our next question from James Mitchell from Goldman Sachs.

JAMES MITCHELL, ANALYST, GOLDMAN SACHS: Great. Thank you very much for taking the question. I wanted to dig into a little bit on why the general and admin spending was so well controlled? If memory serves, you had some [inaudible] legal costs this quarter last year, and some severance costs in the first quarter of 2009, but I wondered if there are any abnormalities in the second quarter of 2009, and also if there is any reclassification of G&A into Research & Development?

PATRICK PICHETTE: So I will answer that. So you are right that at the last quarter we talked about there were some kind of extraordinary items here and there. You will remember legal settlements, and restructuring sales, and a few other items. Otherwise, I think that what you see is the result of good, prudent focus on our general and admin, and we are really happy with the trajectory, and where we land, but there is nothing extraordinary apart from what you have just already mentioned.

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JAMES MITCHELL: Thank you.

PATRICK PICHETTE: Thank you. We will take the next question, please.

OPERATOR: And we will take our next question from Sandeep Aggarwal from Collins Stewart.

SANDEEP AGGARWAL, ANALYST, COLLINS STEWART: Thank you very much for taking the question. Eric, can you give us some glimpses of how the world of computing will look like with Chrome OS, and also maybe any comments on will it be a preinstalled deal with the PC OEMS, can it be downloaded, and if it can be downloaded, will it work with existing installed base, versus just the new PC shipments? Thank you.

ERIC SCHMIDT: Thank you. What we talked about when we did the announcement a week ago, was that we were going to build an Open Source version of Chrome OS, that would be available to the PC community a year from now. We are in fact talking to a PC hardware manufacturers of both architectures, both the ARM architecture, as well as the Intel architecture, to design products that are very, very exciting, that really fulfill the vision of cloud computing.

Other assets of our strategy are still to be worked out based on the feedback, and so forth. There will be a reference hardware spec, there would be appropriate features and so forth, and our primary focus for that product will be speed, and in particular, speed of boot, speed of computation, and the seamless use of all the web services that are the promise of cloud computing.

Will the software be generally available for download, will it run on existing hardware, those are things to be worked out. Because it is Open Source, we won't have the kind of restrictions that other people have, and it will be very possible for people to take it, and do almost anything that they want to it, which is another one of the great benefits of the Chrome OS.

SANDEEP AGGARWAL: Thank you very much.

PATRICK PICHETTE: Thank you. Let's go to the next question, please.

OPERATOR: And we will take our next question from Youssef Squali from Jefferies & Company.

YOUSSEF SQUALI, ANALYST, JEFFERIES & CO.: Thank you very much. Two quick questions for Jonathan. By some accounts, June was reported to have been maybe soft, or softer than April and May for online advertising. Was that true for Google as well, and was there anything outside of just seasonality to account for that?

And then YouTube, you talked a little bit about it earlier, and you said that you were monetizing billions of videos per month. The last time I heard you guys talk about it, you were talking about it, you were talking about hundreds of millions of videos, so are we comparing apples to apples, and I guess lastly, what are the most popular ad formats right now?

JONATHAN ROSENBERG: Sure, Youssef. Let me start with the first question. We generally don't parse intra-quarterly trends, so I really can't say anything with respect to how June was or wasn't different. The only anomalous factor in this quarter I think was really the general timing of Easter versus in the previous year, it was I believe in Q1, and this year it was in Q2, but I don't really have anything else that I can offer. I think what I said was that, or what I meant to say was that monetizable views have tripled in the last year, and that we are monetizing billions of views every month.

Nikesh may be able to give you a sense from an advertiser perspective across the home page, the watch page, and the search pages, where we have different ad formats, featured videos, and the video promotion, promoted videos, which we are doing on the results pages, which he is getting feedback from customers, in terms of what they are the most interested in. I have certainly seen a lot of interest in the home page mastheads, which we have been introducing recently.

Nikesh, do you have any other feedback from the customers?

NIKESH ARORA: I think, Jonathan, just to add to what you said, yes, we are beginning to see that YouTube has established in the advertiser space, now that the YouTube homepage is of relevance, and is desirable for customers. So we are seeing significant sell-through in most of our major markets, where we have YouTube homepage for sale.

In addition, we are beginning to see lots of interest in pre-roll advertising, which is what customers want, on the short clips that we are beginning to acquire from our major partners, like Disney, and the deal we did recently with

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[Vivo], so I think the next phase of YouTube is going to be towards pre-roll videos on short clips and long-form video, which are in the process of doing various deals, which we have announced in the past.

YOUSSEF SQUALI: That is helpful. Thanks.

PATRICK PICHETTE: Thank you for the question. Let's go to the next question, please.

OPERATOR: We will take our next question from Doug Anmuth from Barclays Capital.

DOUG ANMUTH, ANALYST, BARCLAYS CAPITAL: Thanks for taking the question. Eric, you recently mentioned that display was the next billion dollars business, and I think this is sort of a change, because I think you said search basically over the last couple years. Is there anything in particular that has led you to sort of make this change, beyond what you sort of talked about around YouTube here? How do you think you are benefiting at this point from the DoubleClick acquisition, and also curious about the Google Exchange rollout, and how that fits into your strategy? Thanks.

ERIC SCHMIDT: Nikesh has really been driving that area. Nikesh, why don't you summarize where we are?

NIKESH ARORA: Thank you, Eric. I think the way to think about display for us is actually in multiple strands. One is clearly on the YouTube side, which you just talked about in terms of homepage and pre-roll ads, which we are beginning to see some good trajectory in. I think to couple that, the second area of focus for us is the Google content network, where we again see that the revenues are doing well, and it is performing well.

There has been sort of an aversion to more performance-based display advertising in the last quarter, because most of the advertisers have started going back to focusing on CPC and clicks. Where we are bringing sort of the metrics to search to display effectively, and we are seeing a shift away back from CPM to more CPC on the content network, because display inventory continues to rise, and people are beginning to want metrics to measure that.

On the third, as you asked, the DoubleClick integration, we have made tremendous progress to the Ad Exchange, we have now integrated that, the DoubleClick Exchange with AdWords and AdSense, and we are seeing traction, where publishers, advertisers, agencies, all want to work with an exchange, that allows us to expose inventory across the board, to both parties in the transaction. So I think Eric is right that that is the next area where the online advertising is going to shift, and we are going to see tremendous growth in the display space, and we are excited about all three areas individually.

DOUG ANMUTH: Thank you.

PATRICK PICHETTE: Thanks, Nikesh, for the answer. So we will go back to the next question, please.

OPERATOR: And we will take our next question from Spencer Wang from Credit Suisse.

SPENCER WANG, ANALYST, CREDIT SUISSE: Thanks. Good afternoon. Just two quick questions. I was wondering if you guys could talk a little bit about the new trademark policy, and what the results have been since you rolled that out since mid-June?

And then just a follow-up again on the YouTube question. When you guys talk about YouTube being on a better trajectory now, is it just a function of increasing the number of monetized views? Or can you talk a little bit about maybe some of the click-through rates on the ad formats, and what you are seeing now versus previously? Thank you.

JONATHAN ROSENBERG: Sure. This is Jonathan. I will handle the specific question on the trademark change first. I believe we implemented that around the middle of June, and basically it is just an update to the trademark policy in the US for Google.com AFS and AFC, so that advertisers can use trademark terms in their ad creatives, if they are resellers or an information site for the product with the trademark.

And generally we are seeing significant interest in that. I don't have any specific revenue numbers to offer you, but you can certainly try some ads yourself, and get a sense of how frequently it is being used.

On the YouTube side, Nikesh, do you have some comments?

NIKESH ARORA: Yes, YouTube trajectory has effectively been about an ability to scale. We have introduced ad formats. We have gotten into the selling process, selling cycle of agencies and advertisers, and we have been able to go out and sort of create our sales force to go and make these sell-throughs happen. The reason we are excited about it is

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we have finally got all the pieces in place. The agencies are getting into the selling process and the buying process and getting our teams ready.

Secondly on YouTube, we are also now getting excited about the pre-roll stuff, because we are beginning to bring more content. The promoted videos idea, where we can promote partner content upfront, so we can shift more and more user views towards more premium content, allows us to create more inventory, couple that with the fact our teams are now out there selling advertising as pre-roll to various advertisers, that creates the scale and the breadth that we need to drive this forward.

JONATHAN ROSENBERG: And Nikesh, what has been the impact on the user experience from pre-rolls?

NIKESH ARORA: Sure. The pre-rolls, if you look on the web, if you look at premium content, users are accepting that when they are going to watch premium content, they are going to have to see it is supported either by some form of advertising funding, or perhaps they are going to have to pay for it at some point in time. It is becoming accepted user behavior that if they are going to watch content where people have invested money in creating it, they are going to watch pre-roll. There seems to be a general acceptance around this area.

JONATHAN ROSENBERG: This is Jonathan. We do look carefully at the drop-off rates with the pre-roll, and there is very little drop-off, so we are generally pretty optimistic there.

SPENCER WANG: Thank you.

PATRICK PICHETTE: Thank you. Let's go to the next question, please.

OPERATOR: And we will take our next question from Jeffrey Lindsey from Sanford Bernstein.

JEFFREY LINDSAY, ANALYST, SANFORD BERNSTEIN & CO.: Thank you. Could I ask, given the changes in YouTube and the increase in the amount of advertising, is YouTube actually profitable on a contribution basis, or is it a net negative? And then secondly, do you intend to make any money from the operating system? Will you, for example, charge for it, or will it be given free as part of Google Apps? How will that work? Thank you.

PATRICK PICHETTE: Right. So on the first one, we don't give the economics of YouTube. What I can tell you is that we are really pleased with the trajectory of YouTube. We are really pleased both in terms of its revenue growth, which is really material to YouTube and, in the not too long distance future, we actually see a very profitable and good business for us. So from that perspective, we are really pleased with the trajectory. On the second one, I will let Eric answer.

ERIC SCHMIDT: Yes, on the Chrome OS because it is Open Source, we do not plan to charge for it in an Open Source forum. There may be other ways in which we make money from it, but the core operating system, if you go and read the blog post, you will see we said this is an Open Source project, which will be available for anyone to use.

JEFFREY LINDSAY: So that means that even though you incur the cost of doing the development, there is no opportunity for you to make any money with it?

ERIC SCHMIDT: Well, first, remember, we do this with a lot of products, so for example our Android product, there are many other pieces of technology that Google builds, and the rough argument is that we do things that are strategic, because they get people to ultimately use the internet in a clever and new way more, and we know that as they use the internet more, they ultimately search more, or watch more on YouTube, and we then know that our advertising works in a particularly strong and targeted way.

So we do not require each and every project to be completely profitable or not profitable. We look at them in a strategic context, are they making the web a better place. And by making the web a better place, by getting more and more people online, especially on broadband connections, we have a lot of data that says that ultimately results in very strong revenue growth from us, because of the targeted ads that we offer.

JEFFREY LINDSAY: Great, thank you.

PATRICK PICHETTE: Thanks, Eric. Let's go to the next question, please.

OPERATOR: And we will take our next question from Jeetil Patel, Deutsche Securities.

JEETIL PATEL, ANALYST, DEUTSCHE BANK: Great, thank you. A couple of questions. When you look at OEM licensing fees, and if that makes sense or not, but I am just broadly, what is your view on consumer paid services,



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if that makes sense, in terms of leveraging your audience, and the lariat of services that you offer today, to go after somewhat of a consumer pay model, whether it be your own products or other products, say ISVs participating in Chrome OS over time?

And then second, a question around budgets of late, as you talk to marketers and advertisers, are you hearing that they are perhaps holding back budgets until the seasonal strength of August, September, and onward, which is typical of the seasonality trend that we have seen in the past?

ERIC SCHMIDT: So on the first part of the question, if our platform strategy works, and if there are many users of the Chrome OS, there will be many opportunities to build profitable services on top of that platform. That has been true for all of the successful platform plays over the history of computing. And they are likely to be large if it is successful. If it is not successful, then it doesn't really matter. So our focus right now is on building a truly new experience, something very different from the existing operating systems, and then see how broadly that can touch people's lives on a day-to-day basis, in the new model of cloud computing.

As another general statement, it is certainly my belief that you will see a duality between advertising and subscription services, and that eventually monetization in the web will have a very successful advertising model, which of course Google is the leader or one of the leaders in, and also a fair number of strong and successful subscription services, which include micropayment systems, and so forth, and so on.

And that infrastructure has yet to be built in my view broadly. But it makes sense that ultimately content will be either advertising supported, or charged for, and that content here includes content in the form of movies and videos, and so forth, but also things like software, and so forth and so on. With that, that ends the first half of the question. Go ahead.

JONATHAN ROSENBERG: I think the second half was just about advertiser budgets.

JEETIL PATEL: Yes.

JONATHAN ROSENBERG: I guess Nikesh can maybe give you a perspective from what he is actually hearing from the advertisers. The one thing I would like to remind you there, though, is most of our advertisers are not maxing out their daily budgets. So they will always take more clicks if we can give them to them. So in many ways, that is not the right question to ask, but if Nikesh has specific views of what he is hearing from the advertiser community, that might be helpful.

NIKESH ARORA: I think, Jonathan, you are right. Effectively what we have been spending our time with the advertisers is convincing them that search is an ROI-based media, and we can't create inventory. Inventory depends on consumer behavior, so they have worked with us to open up their budgets, and put it out there, what they set very vigorous ROI benchmarks on their bidding, so we understand that they will buy a click at a certain price, but they keep their budgets open with us for the most part, which allows them to buy as much inventory as is created on that particular day.

JEETIL PATEL: Eric, a quick follow-up on that ads versus subscriptions. Do you think that there is a business model from a kind of a royalty standpoint, as ISVs build out apps on top of Google Chrome OS?

JONATHAN ROSENBERG: Again, too specific a question.

JEETIL PATEL: Okay.

JONATHAN ROSENBERG: We don't know yet. It makes perfect sense that there will be new forms of applications distribution. Exactly how they get monetized, probably multiple ways. There are people who are experimenting with ads inside of applications. There is obviously the subscription model, which others are trying and we will know. The good news is, we can talk about this for a long time, because we don't really know for a year or two.

JEETIL PATEL: Okay. Looking forward to hearing about it more.

PATRICK PICHETTE: Great, thank you. Let's go to the next question, please.

OPERATOR: And we will take our next question from Heath Terry from FBR Capital Markets.

HEATH TERRY, ANALYST, FRIEDMAN, BILLINGS, RAMSEY: Great, thanks. Not to overask the YouTube question, but you mentioned that YouTube monetized used have tripled year-over-year. Can you give us a sense of what

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portion that is currently, and can you talk about the challenges to monetizing the non-partner inventory that make up the rest of those views?

JONATHAN ROSENBERG: I guess I don't understand the question with respect to a percentage.

HEATH TERRY: You mentioned that YouTube had monetized views had tripled year-over-year, I am assuming there is a portion of those that are non-monetized. I was just curious if you could give us a sense, as to maybe not exact percentages, but what that portion looks like?

ERIC SCHMIDT: In general, we haven't sort of dissected all of the numbers within YouTube. The majority of YouTube views are not professional content. They are user-generated content, because that is the majority of what people are watching. It is also the majority of what is submitted. YouTube is accepting more than 15 hours of video every minute here, and that is only increasing, which gives you a testament of the power of YouTube.

HEATH TERRY: And in terms of being able to monetize the non-professional side of that inventory?

ERIC SCHMIDT: It has not been our focus. It is probably possible to do so, but the fact of the matter is that the majority of the non-professional content has a relatively small number of viewers. It is difficult to target it accurately. There is too much variation and so forth, whereas the professional here, and remember, professional here just doesn't mean big studios.

It also means smaller studios, new entrants, startups who are professional quality, and you can tell a professional quality video from a user-generated one. It is easy enough. You can tell the difference between the two.

HEATH TERRY: Okay, great. Thanks.

PATRICK PICHETTE: Thank you. Let's go to the next question, please. Probably have time for one or two more questions.

OPERATOR: Thank you. We will take our next question from Steve Weinstein from Pacific Crest.

STEVE WEINSTEIN, ANALYST, PACIFIC CREST SECURITIES: Great, thank you. It looks like over the last few quarters the TAC as a percentage to the network partners has been declining. And I understand there are all sorts of mix issues and seasonal issues that go into that. But I am wondering, given the momentum that you are seeing behind AdSense for content and display ads, if when we kind of spread that trend out, if we can continue to see downward TAC being paid out as a percent of the network.

PATRICK PICHETTE: So I will answer that. Look, there are a lot of mix issues with TAC. When you look at it relative to last year, there aren't these massive swings in TAC. There are clearly mix issues. So on the AdSense and partner networks, right, obviously if you have a mix with more of your smaller partners than your larger partners, it will influence the mix that way.

Clearly with Google TAC, it is not a big change, but it reflects the fact that, we have more partner deals to bring people to Chrome, to bring people to Toolbar. So there is no really big tectonic shift in any way shape or form, but what you see is just the effects of these mix on a quarter to quarter basis just at work.

STEVE WEINSTEIN: Okay. Thank you.

PATRICK PICHETTE: Thank you. We will take one more question, please.

OPERATOR: And we will take our final question from Jim Friedland from Cowen & Company.

JIM FRIEDLAND, ANALYST, COWEN AND CO.: Thanks. Question on Google Apps on the Enterprise edition. Two parts to it. First, you charge \$50 per user per year. Over time, is there a view not only to add services and continue to charge that level, but could you also offer premium features, so that you generate more revenues per customer? And second, as you talk to enterprises, what are the key barriers to adoption that you are hearing? Thanks.

ERIC SCHMIDT: At the moment, of course, we are very happy with the \$50 a year model. We obviously have the opportunity to put in additional value-added services over time. We have got our hands full just sort of pursuing the current opportunity. I think over time, you can expect we would broaden to some of those ideas on a per product basis. When you look at the barriers to entry in that market, they are actually pretty easy to understand.

The customer has a large and existing investment in infrastructure, which is relatively highly specialized. It takes them some time to convert or adapt the systems that they have to use the new web-based computing. This, of course, is

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the fundamental narrative of these product transitions, and that is why they take so many years to go through. It is not that the customers don't want to make the transition.

The issue is that there is some feature, or some unique thing that they depend on. Examples would be in the category of security services, often security systems are relatively highly specialized. Access to specific and often historically significant, but currently not very significant database systems that they still need to have access to.

Other kinds of things, which are just tactical. In other words, they just require some amount of work, and over time we will knock down some of those issues, some of those would be conversions that people will do, et cetera, et cetera. We focused, for example, on the most common ones. Outlook, we have now launched an Outlook sync product.

The use of BlackBerries and in particular the BlackBerry Enterprise Server. We now have very good BlackBerry support as part of our Apps. Those are two of the ones that we have been able to knock down in the past few months that have been high priority, but there are certainly more.

JIM FRIEDLAND: Great, thank you.

PATRICK PICHETTE: Thank you. With this, we will close the call. Let me thank everybody for taking the time to listen to our call today. Just to summarize, we are very pleased of a very good quarter in what is a stabilizing, but a difficult economic environment.

I also would like to thank Googlers for their incredible contribution in Q2. What great progress, and thank you for listening. So Jonathan and I will be able to talk to you, for the people that go follow the second call in about half an hour's time. Thanks again, and with that, I will let the operator close the call, please.

OPERATOR: Thank you. And this concludes today's conference. We thank you for your participation.

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