

Operator

Good day everyone and welcome to the Google Inc. Third Quarter 2013 Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the call over to Ms. Jane Penner, Director, Investor Relations. Please go ahead ma'am.

Jane Penner

Good afternoon, everyone, and welcome to today's third quarter 2013 earnings conference call. With us are Larry Page, Chief Executive Officer; Patrick Pichette, Senior Vice President and Chief Financial Officer; and Nikesh Arora, Senior Vice President and Chief Business Officer.

Also, as you know, we distribute our earnings release through our Investor Relations website located at investor.google.com. So please refer to our IR website for our earnings releases, as well as the supplementary slides that accompany the call. You can also visit our Google+ Investor Relations page for the latest Company news and update, please check it out. This call is also being webcast from investor.google.com. A replay of the call will be available on our website later today.

Now, let me quickly cover the Safe Harbor. Some of the statements that we make today may be considered forward-looking, including statements regarding Google's future investments, our long-term growth and innovation, the expected performance of our businesses, and our expected level of capital expenditures. These statements involve a number of risks and uncertainties that could cause actual results to differ materially. Please note that these forward-looking statements reflect our opinions only of the date of this presentation and we undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events.

Please refer to our SEC filings for a more detailed description of the risk factors that may affect our results. Please note that certain financial measures that we use on the call, such as operating income and operating margin are expressed on a non-GAAP basis and have been adjusted to exclude charges related to stock-based compensation and restructuring.

We've also adjusted our net cash provided by operating activities to remove capital expenditures, which we refer to as free cash flow. Our GAAP results and reconciliations of non-GAAP to GAAP measures can be found in our earnings press release.

With that, I'll turn the call over to Larry.

Larry Page

Thank you. Hi, everyone. Thanks for joining us today. Google had another strong quarter with \$14.9 billion in revenue and great product progress. We are closing in on our goal of a beautiful, simple, and intuitive experience regardless of your device.

Research has shown that people tend to overestimate the impact of technology in the short-term, yet underestimate the scale of change longer term. For years everyone talked about the multi screen world. Now it's arrived, but on a scale few imagined, people increasingly have more than one device and screens are proliferating in the home as well as wearable screens like watches and Google Glass.

When android was still a (indiscernible) project I used to feel kind of guilty visiting the team. We are a search company and building a new operating system wasn't an obvious move to most people. It turns out that was a lot of (indiscernible) over 1 billion android devices have now been activated worldwide and 1.5 million devices are sold off everyday.

I'm also tremendously excited about Chromebooks, which are growing fast and defining the more general decline in laptops. It's like the chrome browser; updates are seamless and frequent improving security and usability. It was a great example of technology doing the hard work, so you can get all the stuff that matters.

Two weeks ago we launched the new HP Chromebook 11. Its beautifully designed and light weight and just over 2 pounds and at \$279, highly affordable. Best of all, it has a high power micro USB charger that can also charge your android phone. Recharging isn't too much of a sweat and there is tremendous potential to innovate. So it's great to see progress here.

This quarter we also launched the Moto X. The first one that Motorola has developed and produced since Google acquired the company. Super fast and clean and the voice features are great. While it's still early days, Dennis and the team have already transformed Motorola's product quality. Now they're working to build out marketing and distribution.

As screens multiply people navigate across them seamlessly becomes more and more important. That's why I love Chromecast which we launched in July and immediately became a best seller. On your phone, tablet or laptop and start playing some music from Youtube or a show from Google play or Netflix. One click the content is there on the bigger screen in your home, your TV, all for just \$35.

And unlike some other streaming devices, you can continue to email search and share as the Chromecast handles the hard work without draining your device battery, genuine multi-tasking in a multi screen world. We've also making great progress across devices with Youtube. Almost 40% of Youtube's traffic now comes from mobile, up from 6% two years ago. And in August we updated our Youtube apps for android and iOS. You can now leave a video playing at the bottom of your screen while you explore other content.

Our execution in velocity and search from maps is getting better and better and from a very high base. A new map app for iOS and android shipped in July, but is specifically for downloads to make the most of this larger screens. And in September we've rebuilt our entire mobile search experience of a simple card interface that is easy to read and have designed, that is optimized for touch.

Our momentum on voice search is tremendous. We added four new languages this quarter making available on over 78 languages and accents. We've also expanded the quick answers, we can provide just for you. Fast Google for your flight details and up here instantly in your search results, no digging around in your email required. And the search across Google+ photos is extraordinary. Search for sunsets and all the pictures you've ever taken of sunsets to appear instantly. If you haven't tried it, prepare to be amazed.

About two years ago, when I became CEO again, my goal was to ensure that Google maintains the passion and soul of a start-up as we grow. It's why I've worked so hard to increase the velocity and execution. So we create great products people love to use and iterate fast to ensure they get better and better. Because great is just never good enough.

When you look across the company, it's amazing how well the teams are executing. For example, we rolled out Enhanced Campaigns in AdWords across all devices for all our advertisers in less than a year. Of course none of this would happen without great people and we are so lucky that we have them. I'd like to thank all the Googlers and Motorolans who make everything possible. Keep up that velocity and execution.

Before I hand over to Patrick, I want to let you know that going forward, I won't be joining every earnings call. Patrick and Nikesh do a great job covering our business each quarter and they'll continue to do that great work. I know you all would love to have me on, but you are also depending on me to ruthlessly prioritize my time for the benefit of the business. I'm very confident you are in good hands with Patrick and Nikesh.

So now, over to Patrick.

Patrick Pichette

Thank you, Larry. Good afternoon, everyone, and thank you for joining us again. Without further ado why don't we just dive into the details of Google's financial performance in Q3? So here we go. Our gross consolidated revenue was just shy of \$15 billion at \$14.9 billion. The overall business was up 6% quarter-over-quarter and 12% year-over-year.

Our Google segment, gross revenue grew a healthy 19% year-over-year to \$13.8 billion and was up 5% quarter-over-quarter without currency fluctuations, Google segment revenue would have actually grown 21% year-over-year and the currency impact on sequential growth was actually immaterial in our case this quarter.

Google sites revenue was up 22% year-over-year to \$9.4 billion and was up 6% quarter-over-quarter, driven by the strength in our core search advertising business. The advertising policy decisions that we implemented earlier this year to ensure good user experience continued to negatively impact Google's network revenue in the short term, and therefore our network revenue was in fact flat year-over-year to \$3.1 billion and was down 1% quarter-over-quarter.

Despite the short-term pressures we continue to believe that this is clearly the right answer for our users and shareholders in the long term. And finally to finish Google's segment on a positive note, Google's other revenue grew 85% year-over-year to \$1.2 billion and was up 18% quarter-over-quarter. Digital sales of apps and content in our Play store drove year-over-year and quarter-over-quarter growth in this line.

Turning to Motorola segment, our gross revenue there was \$1.2 billion. As Larry mentioned, while it's still the early days, Dennis and the team have already transformed Motorola's product quality and they're working now at building marketing and distribution.

By the way, some of you may have noticed that our total consolidated revenue does not exactly equal to some of our segment revenue this quarter. This is driven by new transactions in our Motorola segment resulting in intersegment and certain deferred revenues that are eliminated in our consolidated results.

Coming back to our Google segment, our global aggregate paid click growth was strong this quarter, up 26% year-over-year, 8% quarter-over-quarter. Our aggregate cost-per-click was down 8% year-over-year and down 12%

quarter-over-quarter. And we should note that the currency fluctuations had a real minimal impact on Q3 cost-per-click.

Once again, I wish to remind everyone that our monetization metrics continue to be impacted by a whole set of factors discussed on previous calls. They include geographic mix, channel mix, property mix as well as product and policy changes.

Turning to geographic performance of our Google segment, we continue to see steady performance in the U.S. and the U.K. and strong performance in the rest of the world. In our earnings slides, which you can find on our Investor Relations website, you'll see that we've broken down our revenue by U.S., U.K. and rest of world to show the impact of FX and the benefits from our hedging program. So please refer to those slides for the exact calculation.

The U.S. revenue was up 13% year-over-year to \$6.1 billion and it's worth noting that network revenue that I mentioned a bit earlier which continues to be impacted by ongoing policy decisions skew toward the U.S. The U.K. was up 14% year-over-year to \$1.4 billion which includes a small \$17 million benefit from our hedging program. In fixed FX the U.K. grew 15% year-over-year.

In our non-U.S. revenue excluding the U.K. accounted for 46% of total revenue or \$6.3 billion. This was up 28% year-over-year which includes a \$5 million benefit from our hedging program and in fixed FX terms, our rest of world actually grew 32% year-over-year.

Coming back to an aggregate level for the total consolidated business, our non-GAAP other cost of revenue was \$3.3 billion in Q3 excluding SBC and Motorola restructuring. Our non-GAAP operating expenses totaled 4.3 billion again excluding SBC and Motorola restructuring. For a non-GAAP operating profit was \$4.3 billion in Q3 resulting in non-GAAP operating margin for the consolidated business of 29%.

For Google segment our traffic acquisition costs were \$3 billion or 24% of total advertising revenue. Our other cost of revenue was \$2.3 billion excluding \$133 million of SBC. Google segment operating expenses were \$3.9 billion also excluding SBC of \$723 million.

Depreciation and amortization expense on our property, plant and equipment for the Google segment was \$630 million this quarter. And our Google segment operating profit as a result was a strong \$4.6 billion in Q3 resulting in Google segment operating margin of 34%.

At Motorola our total segment operating expenses including cost of revenue were \$1.4 billion. That excludes \$30 million of stock-based compensation and \$12 million of Motorola restructuring charges. Please keep in mind that intangible amortization expense attributed to the Google segment and Motorola are in fact included in these segment measures.

Of the \$281 million in consolidated intangible amortization expense in the quarter, \$153 million was the result of the acquisition of Motorola of which \$116 million was allocated to Google segment and \$37 million allocated to the Motorola segment. And as a result, the operating loss at Motorola segment was \$248 million in Q3 and operating margins for that segment were negative 21%.

Headcount for the consolidated business was roughly 1,500 people, up in Q3. The Google segment added just about 2,000 people during the quarter and in total the consolidated company ended the quarter with approximately 46,000 full-time employees. Our effective tax rate was 15% in Q3. Our tax rate this quarter was impacted by the continued mix shift of earnings between our domestic and international subsidiaries.

Let me now turn to cash management. Our other income and expense was 24 million for this quarter. The impact of FAS 133 expense from our hedging program and realized losses mostly offset interest income in this quarter. And as you know we often get questions on quarter-to-quarter volatility of our hedging costs.

So to help everyone understand this better, we put together a video tutorial on the topic. You can find the new video on our Investor Relations website. I hope you find it helpful and let us know what you think. For more detail on OI&E, please again refer to the slides that accompany this call on our IR website.

We continue to be happy with our strong operating cash flow at \$5.1 billion. CapEx for the quarter was \$2.3 billion. This quarter the majority of our CapEx was spent on production equipment, data center construction and real estate purchases. As I mentioned last quarter during my remarks, we continue to invest for the long term and our infrastructure continues to be a key strategic area of investment for us.

Consequently, our free cash flow was \$2.8 billion, very strong again. So there you have it. Strong results and an optimism that provides us the confidence to fund strategic growth fully in the opportunities, areas including Mobile Business, Android, Chrome, YouTube, Enterprise just to name a few. With that I'll hand it off to Nikesh, who'll cover more details of our business

performance in the quarter and after these remarks we'll open up the phone lines for questions. Here you go, Nikesh.

Nikesh Arora

Thank you, Patrick. As Patrick mentioned our business had a strong quarter with \$13.8 billion in Google segment gross revenue. Overall performance was strong in the retail sector. We had good growth in Japan, South Korea and Australia. There are three key areas I want to talk about today, that are big growth drivers for us and our partners. First; our continued efforts to make advertising seamless, effective and measurable across multiple screens. Second; our progress in bringing bad advertisers online with a special emphasis on our efforts that are on Youtube; and third our early investments in commerce and shopping to help users, retailers and merchants. And last say a few words about newly areas like digital content, hardware and enterprise.

On seamless advertising; it's been a few months since our advertisers moved over to enhanced campaigns and AdWords. Clients are telling us they like the new system. Many are still adjusting their campaigns and keywords and developing their multi-screen bidding strategies. For example; we're seeing advertisers bidding more frequently in mobile keywords because enhanced campaigns makes it so much easier to do so. They're discovering how they can use the needed capabilities in mobile and their ads, like location Click2Call. Example is discover who has just increased their mobile spend and used it to promote their [it card].

Talking about mobile, we've also launched cross device measurement tools and analytics. There are three observations here. First; mobile is driving higher online conversion. American Apparels found that mobile ads were actually driving 16% more conversions than they initially thought and as a result they're now investing more to drive more sales. Second, mobile drives more phone calls. On average there are more than 40 million calls driven by Google ads every month, this is twice as much as it was a year ago. Third, mobile drives in-store traffic.

Moving over to brand in YouTube. You've seen that our CPG and entertainment clients have moved online at greater speed with our efforts that are on brand. Spend by our CPG clients on displaying YouTube has grown over 75% over the past two years. For example, the Google YouTube campaign for Dove's Camera Shy brand in more than 20 countries and delivered over 62 million views for Unilever. We're also partnering very closely with agencies, we really like integrating our technology, insights and media with their creativity and client relationships.

For agencies, marketers and Googlers it's a huge win, win, win. All of the top 10 global agencies now use our DoubleClick products. On the other side YouTube continues to do well. Video ads which include CUview now form a significant part of our YouTube in brand advertising and they're growing north of 75% year-over-year. We found that YouTube is our brand torch bearer. It offers brands valuable engaged audiences, terrific reach and compelling context. Smart brands are really loving their engagement with YouTube.

Moving on to commerce and shopping. As Google search moves to provide people with answers and entities not just links, we're making good progress helping people take commercial access too like buying products. We're seeing great traction on product listing ads both in desktop and mobile. As part of this moved to a seamless purchasing experience we're also helping retailers offer better payment solutions to their customers particularly on mobile where it's traditionally been difficult. Google Wallet InstaBuy helps merchants here up implementing instant buy Google (indiscernible) saw that from May to August users of Google Wallet on their Android app had a purchase conversion rate that was four times higher than other shoppers.

Finally I want to talk about an area which we're being putting more emphasis on which is our investment in emerging non-ads businesses. As we mentioned last quarter, we continue to see acceleration in the new businesses such as hardware, digital content and enterprise. As Larry mentioned Chromecast and Chromebooks are enjoying great success. Chromebooks are now available in over 8000 locations around the world and are being used in more than 20% of school districts in United States. We're also rolling out unified Google experience in more than 750 Best Buy stores to showcase Chromebooks, Chromecast and the newest Nexus devices under our one Google branded design.

On digital apps and content we continue to work hard to roll out Google Play in more markets around the world and add content to it. For instance this quarter to help students go back to school we added a comprehensive catalogue of textbooks to Google Play Books for rental purchase. We brought on content partners like HBO and DC Entertainment. This quarter we brought Play Music to eight more countries and Play Books to 18 new countries. So for example now users in Russia can enjoy music and users in Indonesia can enjoy books. There's tremendous momentum here and we look forward to making progress in this area.

Another strong area of recovering and growing revenue is our enterprise software business, making available the best of Google for work. Some great new clients this quarter include whirlpool which is now using Google Apps to help 30,000 employees collaborate and innovate more quickly. In education,

apps for education is being used by 30 million students, faculty and staff worldwide. Beyond apps, Amtrak uses Google Maps to let people see all the trains in the U.S. in real time, and we're continuing to invest in the Google Cloud Platform which has over 300,000 customers including Sanmina, a Fortune 500 Company using cloud platforms to build internal applications that improve their efficiency across their offices globally.

Lastly let me call out the efforts of our marketing team that continues to roll out the Google Welcome Mat to the world. To put on our third annual Google Science Fair honoring 15 global finalists from the ages of 13 to 18 from around the world where we hosted 400 partners and customers who are at our Annual Site Cast Event, more interestingly to introduce the newest version of Android called KitKat, we've built a partnership with Nestle to get more than 50 million special Android KitKat chocolate bars on store shelves around the world. And I have to give a shout out to the wonderful ad for our Nexus devices featuring the great sport of cricket that our marketing team is running in Australia, that's a bit of a personal favorite sport. With that, let me hand it over to Patrick. Thank you again to all the Googlers for all their hard work in getting us here.

Patrick Pichette

So there you have it folks. Why don't we have Jamie turn on the lines and then we'll take your questions. So Jamie, over to you.

Question-and-Answer Session

Operator

Thank you, sir. (Operator Instructions) And we'll take our first question from Mark Mahaney with RBC Capital Markets.

Mark Mahaney - RBC Capital Markets LLC

Great, two questions please. Could you talk about how long you think it will take for advertisers to move over to fully embrace the multi-screen advertising world which enhanced campaign should enable or facilitate. And then secondly the skunk's works question, voice recognition technology at the Company I think it's something you've been working on for years, I think it's what enables wearable devices in the future. Can you talk about how far along you are in developing a technology to be where you want it to be? Thank you.

Larry Page

Yeah; thanks Mark for the questions. I think the first part of your question I'll to send Nikesh in a minute and I'll take the voice recognition question. I think we made tremendous progress on voice recognition. Even in period of months probably the last couple of months or six months the accuracy has gone up quite a bit. If you haven't tried it, I'd really recommend you to try that, it's super fast, on the motor axe, you can say, okay Google now, even if your phone is turned off it will turn on and answer your question. So, I think we're super excited about that, and I think we made tremendous strives and we'll continue to improve accuracy in that and to make the products better. But I think they're already super useful and we have a lot of usage coming from voice. So Nikesh, in the enhanced campaigns.

Nikesh Arora

Hey, Mark as you know on the topic of enhanced campaigns the challenge we had as we moved into a multi-screen world was, everybody was producing solutions where we had to basically run campaigns on different devices in a different way because it's this evolution that happened from desktop to mobile to video ads et cetera. And effectively what our team working with Susan and Sheila's team have been able to do is to provide one single interface and one single mechanism to be able to manage our campaigns across multiple devices. Now that's a good thing because it improves process, let's them see the ROI across various devices with the analytic tools that we've come up with. But also there's a lot of work that needs to happen on the advertisers side because they have to develop beautiful experiences for their customers on mobile devices as well as on their screen. So I think it's a process where we're all going through this together, advertisers love this new mechanism. They're adjusting their keywords and they're bidding models based on all this new effort and we're seeing great progress in terms people are already advertising those. But not only that, we're also working with all of our advertisers to make sure they have great experiences on their other screens and other devices so that they can truly leverage this. So, I think this is definitely the sort of the first set of steps we've taken to towards future or multi-screen devices and multi-screen advertising but we think this is the way things are going to keep evolving.

Patrick Pichette

Thank you.

Mark Mahaney - RBC Capital Markets LLC

Thanks, Larry.

Patrick Pichette

Jamie, why don't we go to our next call?

Operator

We'll take our next question from Ben Schachter with Macquarie.

Ben Schachter - Macquarie Capital Inc.

Larry, can you discuss Google's overall ecommerce strategy, how the Knowledge Graph structure data plays into it and generally how Google can improve the users' ecommerce experience? And then Nikesh, you touched briefly on the brand efforts and I was looking at some data recently that shows that over the past 15 years virtually all the games for online advertising has come at the extent of print and radio and none of it has come from television budgets. What specifically is happening now that makes you think it's more likely for the television dollars to finally begin to come online and to Google in particular? And then just a quick housekeeping one for Patrick. Can you just give us a bit more detail on how the accounting works for the intersegment transactions and how it impacts the consolidated model? Thanks.

Larry Page

Like a three-way question [indiscernible]. So I think on the ecommerce side, I think Google's been used for e-commerce for forever and we're really excited about doing a better job of that. I think we want to remove friction when people are buying online or in the real world. We know people often click on an ad in a mobile device and then make their purchase on the laptop or they might in fact buy it in the store and we need to really get the conversion data there to the advertiser. So I think we've done work across all those things, across multi-screens, multi-devices from online to offline. We recently launched cross-device measurement in AdWords and we're also just trying to make it easier for people to buy things in general. It's as simple as that's same day shipping in local inventory and search. Like I said, we're just looking to reduce friction and we're very excited about that.

Nikesh Arora

Yes. Hi, Ben. If you look at the last 15 years of history like you talk about, a lot of the gains of online advertising have actually come at the expense of what we would call performance advertising. Anytime you wanted to interact with users, get people to come into your store, get people to buy your product, get people to click on your website, all those gains have happened in performance which has been great. But what's beginning to happen is as the watch time on various online video sites continues to grow, as more and more online video begins to be available in a nonlinear fashion in television

screens or recent as Larry talked about Chromecast, that stuff or a bunch of the gaming devices, a bunch of other TV solutions, they're beginning to see a lot more watch time being expended either on your desktop or on your multi-screen devices or even on your television. As that begins to happen that advertising is more addressable, more directly attributable and provides more measurement and capabilities. So we believe that that's definitely a more superior opportunity for advertisers to be able to attract their brand customers and actually know who's at the other end. So I think that trend is definitely in the right direction and we're getting upward.

Patrick Pichette

So why don't I take the last question which was the housekeeping item. Actually this is pretty straightforward change, Ben. So in Q3 our Motorola and Google segments purchased and sold services to each other and these transactions are reflected in our Google and Motorola segment revenues. The main thing analysts need to realize as they update their model this time is that the total consolidated revenue will no longer necessarily like in the quarters where there is transaction between the two equal the sum of the Google and Motorola segment revenues. So analysts who currently sum up our segment revenues and profits to derive consolidated estimates should need to model in elimination lines for the intersegment revenue and profit in order to get their consolidated estimates. So that's simple as that.

Thanks for the questions. So, Jamie, why don't we go – thanks, Ben – to our next caller.

Operator

We'll go next to Carlos Kirjner with Sanford Bernstein.

Carlos Kirjner - Sanford C. Bernstein & Co. LLC

Thank you. Larry, I hope that when you come up with voice recognition, it can deal with funny accents. Anyway the perception by people outside the company is that Google spends a material amount in long-term R&D that will not generate revenue in the next two years or so. Larry, can you help us understand how you think about funding this project and how much do they correspond versus your total R&D budget? And secondly, Patrick, you said in the past that CapEx is lumpy and we should expect fluctuations but now we have had three quarters of what looks like high CapEx versus recent past. Have the last few quarters been normal? Thank you.

Larry Page

Yes, thanks, Carlos. I think we definitely are working on accents, so I appreciate that. I think that on the long-term R&D question, I think we don't break all this on detail, but I would say that, my stronghold in general is to get people to spend money on long-term R&D. In most companies I think even companies that have significant R&D budgets, if you look at that maybe 99% of it ends up being really incremental, which is relatively small improvements to kind of your existing businesses, and maybe 1% of that ends up being kind of true long-term things like Android was when it got started. So I think I kind of view my job as the opposite thing is to get people to spend on the long-term R&D. I do think people have a perception that's material. I don't think that – that's not been my experience and so it's very hard to actually spend money on long-term things in any kind of meaningful way. And even the investments we've announced, things like Calico or rather an absolute dollar number's probably significant amounts, they're not significant for Google. And I think you should actually be asking me to make more significant investments. I wish I knew how to do that but I think it's actually very difficult to spend kind of meaningful amounts of money relative to goal scale on things that are speculative.

Patrick Pichette

Thank you, Larry. Carlos, on the issue of CapEx just to reiterate the fact that the majority of the CapEx this quarter was spent on production equipment, so like machines, data center construction looking ahead and building the capacity ahead of our needs to get the flexibility and real estate purchases, so we had a number of kind of really good opportunistic purchases in the portfolio we were targeting and they kind of came online this quarter, so pretty pleased with that. I think that overall investors should see this as a very positive sign and a positive signal. As I mentioned last quarter during my remarks, we continue to invest really for the long term and just a conversation we're having with Larry on the topic of R&D. And our infrastructure continues to be a key strategic area for investment for us. It's really important that when we see signals of or opportunities where we need capacity, the worst thing for us would be to actually not have it in terms of machines and data center capacity. So the strategic value of having it for flexibility for our long-term positions are really important. That's what you see reflected in our investments right now.

So thank you for your question, Carlos.

Carlos Kirjner - Sanford C. Bernstein & Co. LLC

Thank you.

Patrick Pichette

Jamie, let's go to our next call, please.

Operator

We'll go next to Ross Sandler with Deutsche Bank.

Ross Sandler - Deutsche Bank

Thanks. Larry, just to follow-up on Ben's question earlier, it seems like you guys have all the pieces in place with Android, with Maps, with Google Now, Wallet, credit card information in the Play store to kind of vertically integrate the experience from research search to purchase in the local and transactional areas, kind of the closing of the loop if you will. So can you just elaborate on the overall strategy and how does the recent cross screen conversion estimates enhance play into that? Thanks.

Larry Page

Thanks, Ross. We have all positions available [indiscernible]. I think we certainly agree with that. I think it was a pretty good description of me. We all account many different pieces of your commercial experiences. I think in general I mean now our experience for users is not that seamless and there is lots of different pieces of technology and processes in order to make commerce happen and so on. So I think we have got something we absolutely are looking at improving about closing the loop and so on. I mean I think your question actually is pretty good, so really I don't know that I can add much more.

Patrick Pichette

Thank you for your question. Jamie, let's go to the next caller please.

Operator

We'll go next to Dan Salmon with BMO Capital Markets.

Dan Salmon - BMO Capital Markets

Hi. Good afternoon, guys. My question was for Larry. Since you've come back into the CEO's role, one of the things we've noticed with Google is that your own advertising spending has moved up and once upon a time Google was a company that didn't need to advertise and obviously you're in a lot more businesses these days from where you started, but maybe just philosophically how you view that for Google long term as you do launch into more secondary products other than search. And then just one quick follow-up with the Canadian Government announcing this week that they'll look to

pursue unbundling of TV subscriptions; would you ever consider taking Google Fiber to a market outside of the U.S?

Larry Page

Yes, Dan thanks for the questions. And I think we saw a lot of advertising and we do a modest amount of advertising. I think we find that pretty useful and we've gone better at doing it, and I think it's good for our business, it's good for us to understand kind of the advertising perspective from a advertisers point of view given that's some big business for us. I might want Nikesh to elaborate a little bit on that. In Fiber, I think it's really just early days. We're just getting going on that.

Nikesh Arora

Yeah, to follow-up on the marketing question, I think we still encourage our product teams to go out there and get their products to be used by users, the [merits] of the products, because we believe that's all the marketing that they can have. But as our products get more and more popular there are many part of the world we want to make sure there's awareness for those products and people understand what the capabilities and features are. That's the only time we bring in marketing to kick in. And the other area we do a lot of marketing in is in trying to make sure that our advertisers understand the advertising opportunity so that they can actually can spend money with us; so that's roughly how we think about marketing. But the primary focus is definitely on making sure we create great products that users use and the products stand and get (indiscernible) their own merits.

Larry Page

All right. That's very correct. Let's go to the next question.

Operator

And we'll go next to Gene Munster with Piper Jaffray.

Gene Munster - Piper Jaffray

Hi, good afternoon. Question for Larry in terms of, you talked about R&D spending and just the amount that you're going to be gauging at. Can you talk specifically about self driving cars that realizes way down the road, but how real is this as a business and then separately in terms of CPCs how should we see these -- how should we see enhanced campaigns impacting CPCs over the next few quarters? Thanks.

Larry Page

Okay, great questions from Gene; thank you. So I think, I guess on self driving cars specifically I think for any big innovation I think you overestimate short-term and underestimate long-term, that's probably good summary for self driving cars. I think we made tremendous progress and we've driven large amounts of miles, how we change the business from being something that wasn't going to happen at all to something that now is somewhere inevitable and people's feelings about it which I think is tremendous progress. That said it's still pretty early days from the product, I don't know exactly what I have been saying but its still ways from being a commercial product. Probably overestimate that in the short-term like I said and underestimate that in the long-term. Now for the second part of the question.

Patrick Pichette

Why don't I jump in for a second, CPCs. Listen we don't, because you asked the question about, what do we expect quarter over the coming quarters. We don't really manage the quarterly CPC trends. We actually focus on the user and the advertiser ROI. So in general right we attribute CPC trends to a combination of those five factors I talked about, FX the three mix effects of mobile versus desktop, emerging markets versus developed markets, the channel mix between our sites and our network, then a number of products and policy changes; that's really the big driver. I think that we're really pleased as Nikesh mentioned enhanced campaigns is a great platform that enables us for a future and as long as we actually have the format that delivers the great ROI then enhanced campaigns will just accelerate this in the future and that's what we're working on. So, it's really the complex puzzle and it's important that not only we think about CPCs in the context of all the factors I talked about. But what's even more important is the dynamic of those CPCs and page clicks together. That's really the magic that actually talks about our growth.

Larry Page

All right. Our next question please.

Operator

And we'll go next to Brian Fitzgerald with Jefferies.

Timothy O'Shea - Jefferies & Co.

Yeah, hi it's Tim O'Shea for Brian Pitz. I know it's still early, but can you give us a broad sense for how you're feeling about the holiday shopping season, and do you have any sense of the updated Google shopping or PLA program has made you better positioned to capitalize this holiday. And then just

quickly can you give us a sense of what kind of attraction you're seeing from the recent implementation of localized PLAs during the quarter? Thanks.

Patrick Pichette

Just to say that we clearly do not, as you all know we don't give any sense of what's going on in the fourth quarter. We actually just are closing our third quarter so we don't give forward guidance on any of it. I think maybe Nikesh can give a sense of where PLAs are going in general.

Nikesh Arora

Yeah, thanks Patrick. Tim, I think the important part in PLAs since I mentioned in the prepared remarks is that we are transitioning from giving users answers in terms of links to taking them down to entities and PLAs in a product listing ads is definitely a big step in that direction because we believe that's a great answer for the user and a good user experience of the long-term especially more interesting in mobile devices. So, from a long-term user experience perspective we believe that is the right direction; that is a good user experience to have, not going to particularly comment how that is going to impact, what happens in the next few weeks, for the next few quarters?

Larry Page

All right. Our next question.

Operator

And we'll go next to Ken Sena with Evercore.

Ken Sena - Evercore Partners

Hi, thank you. On Google Play it's my understanding that much of the 30% that developers don't keep actually goes to carriers and OEMs. So I was just wondering if you can update us maybe on those negotiations and kind of when you see Google maybe receiving a greater portion of plays the economics; and then maybe if you could just update us too on your thoughts on travel. Thank you.

Larry Page

Okay, Nikesh will take the play part there.

Nikesh Arora

Yeah, on Google Play as you know that Google Play has been something that our teams have worked really hard on in the last two years to make sure because that sort of fills out the Android ecosystem and as a key part of making the Android experience a great experience by having great content, great apps on the Google Play system. And in terms of economics, the economics like you said rightfully are shared between developers, carriers, OEMs and us and our key with Google Play is to make sure that there is a robust ecosystem. People like Android devices that provides some great functionality and we believe anybody who brings value to that ecosystem should have economics in that ecosystem once a carrier, OEM or a developer or us. We're not going to specifically talk about who keeps what part of the economics, but just to say that we're comfortable with the way the economics work out, and the more important part is, it is helping drive the ecosystem in the right direction.

Larry Page

Also Nikesh on travel.

Nikesh Arora

Yeah, on travel we continue to work on travel. As you know we have a great exciting product on flight search and we have our IDA business and we're happen with the business the way it is. We are working hard on making sure that the entity level concepts that applies to a product it also applies for travel as in terms of flight search.

Ken Sena - Evercore Partners

All right. Thank you.

Larry Page

All right. The next question.

Operator

And we will go next to Colin Sebastian with Robert Baird & Co.

Colin Sebastian - Robert W. Baird & Co.

Great. Thanks very much. First question is, curious how you guys are thinking about the future of cookies in online advertising, obviously a lot of chatter about privacy issues and perhaps Google working on that ideas and alternative. And then secondly haven't heard a whole lot about Japan, although we're seeing pretty -- fairly rapid shift to android in that market, I

wonder if you can comment on the Google business Japan and the pace of growth there? Thank you.

Larry Page

Okay. So maybe Nikesh can you address the cookie version?

Nikesh Arora

Yes, I mean, from our perspective we believe that technological enhancements can definitely improve user security in order to make sure that the web continues to remain economically viable in that transition. So we've a lot of concept to this area, but it's very early right now to try and actually elaborate them and talk about what's going to work, what's not going to work. But as I said the primary motive is to make sure that we can keep enhancing technologically what's going on, what's going to make sure that if we don't bring the system and you make sure that things stay secure and economically viable.

In terms of Japan, as I mentioned Japan has been good for us this quarter. And as you rightfully identified that we're -- we continue to see robust growth in the sort of the multi screen space. In that market, clearly it's an early adopter market as it relates to mobility and tablets and devices. So you can -- we're feeling very good about how the consumer behavior there is and how that translates into advertising.

Larry Page

Next question.

Operator

And we will take our next question from Stephen Ju with Credit Suisse.

Stephen Ju - Credit Suisse

Larry different question on Google Fiber, if I may. It's now rolled out in a few regions around the country. Can you share with us some of your early learnings in terms of how consumer behavior changed once the connection speed stepped up materially in this new environment? And what kind of new services or products you think Google can rollout or how your existing services can change for the better? Thanks.

Larry Page

Thanks, Stephen. So I think again it's very early on Google Fiber. It's announced in several places I think really rolling out in Kansas City. I think

one of the things that's unique about the Google Fiber offering is that your television service is available right through the data connection. So one big change in having a high-speed data connection is actually the entire kind of television experience, cable TV like experience comes straight through your data connection, through your gigabit connection. And people I think have been pretty excited about that experience being a great experience for watching television actually.

So our next question.

Operator

We'll go next to John Blackledge with Cowen and Company.

John Blackledge - Cowen and Company

Great. Thanks for the question. I wondered if you can review the content strategy at YouTube and the willingness to invest in areas like live sports, like the NFL and how the content strategy would play in the evolution of YouTube over time. Thank you.

Larry Page

Thank you, John, for the question. I think I'll also give this one to Nikesh.

Nikesh Arora

Well, again as we've always said that YouTube is an ecosystem which is a combination of great users, great advertisers and great content and we talk to content providers all the time because we understand that users come to YouTube so that they can enjoy both user-generated content, other forms of content both short form and long form. So we're pretty comfortable that we're making great sort of progress. The number of hours that people watch YouTube continues to go up, the amount of videos uploaded to YouTube continues to go up. And as Larry mentioned, we're seeing a lot of YouTube usage coming out of mobiles. So really our content strategy in YouTube is working. We're constantly talking to people about content all the time and so sure, we will talk to anybody who wants to talk about content. But for now we're happy with where we are. In the end our goal is to help make sure that our users have a good experience, that they get to see the right content on there and our advertisers are able to advertise on that platform.

John Blackledge - Cowen and Company

Thank you.

Larry Page

Our next question.

Operator

We'll go next to Scott Devitt with Morgan Stanley.

Scott Devitt - Morgan Stanley

Hi, thanks. A bigger picture question for Larry and components of the question have been touched on in the call, but there has been a debate for some time about the Internet becoming more vertical and accelerated by the transition to mobile and if that could serve as a headwind for Google's business, yet your core revenue growth has been remarkably stable for several quarters now, above 20%. And Larry you've talked about this broad topic in prior calls, but I was just wondering if you can give an updated view of the landscape as it relates to your efforts to go deeper into the transition funnel to offset verticalization as well as if you could share your perception of Google's competitive position in a multi-device world versus the legacy desktop, laptop world? And then secondly, any timeline or thoughts that you can give on Project Loon in terms of it becoming a commercial offering? Thanks.

Larry Page

All right. Thanks, Scott, for the questions. So I think – so the first topic is pretty complex topic, I think we're very well positioned in mobile. I've said this before where we have the Android. I think we have tremendous services on Android. And we have obviously search and things that work across many different things. I'm tremendously excited about the funding. We have the potential to really improve people's experience as they move more into mobile and spend more time there and to make those experiences much more efficient and pleasurable and beautiful for those users. Often as I do things with third parties and one thing to keep in mind is we've done a lot of effort around the APIs on Android and we're working with top developers in and around Google Play as a marketplace for those developers. Those things are evolving all the time with the help of some users and help of those developers. So we have a lot of ideas there and a lot of work going on. So I'm actually very, very excited about that. I think we're tremendously well positioned to help them [indiscernible] move along and make users' experiences better and to improve our business from the developers' businesses. I think – even I find I'm spending most of my time now on mobile and not so much on the old desktop world, because I guess a lot of people are going to generally do over time. I think on Project Loon, again it's really early for that. So we announced because we had to, because people are seeing them and they're flying around and so on. But it's a small team,

it's very exciting. We've been totally amazed by the positive reaction we've gotten across the world and from high speed and telcos and other people wanting to work with us, which is tremendous, we want to work with all of them. I think I found something important in trying to improve rural Internet access, which is something that if you're one of the significant number of people in a rural area or a place that doesn't have great Internet access now, it is something that really matters to your quality of life. So we're excited about that.

Patrick Pichette

We have time probably for two more questions, so why don't we jump in on the last two. Jamie?

Operator

We'll go next to Heather Bellini with Goldman Sachs.

Heather Bellini - Goldman Sachs & Co.

Great. Thank you taking the question. Larry, I just was wondering with advertisers having more choice of broad platforms to use for spending their digital ad dollars and in particular on mobile, I'm just wondering do you see a big acceleration in dollars moving from offline to online, do you see that pace accelerating over the next few years? And also how will Google continue to differentiate itself here?

Larry Page

Yes, I guess I'll give that to Nikesh. I'll just say we've always seen a lot of choices in advertising. We've always competed a while in that market and I think people are definitely getting more and more excited about moving dollars online. For us I think the measurability of it, the strength of the tools that are available and technologies to do that we just see as an amazing opportunity and I think people are more and more realizing them. Nikesh?

Nikesh Arora

Yes, to build on what Larry said I think he's right that we are expecting more and more dollars to move towards these platforms for a variety of reasons. One, there are more options for some more players in the market which are – that means they are all working hard towards the same goal of convincing advertisers and this is the place where the users are and this is where advertisers need to be. Also if you think about what's going on, it's as I said earlier in the context of YouTube, we are going to see more and more video coming on to the web and online mechanisms is more targetable and more

addressable. In terms of our differentiation, if you look at what we've done over the last many years is we've actually worked in terms of trying to provide a comprehensive solution across all digital capability whether it's on Google, whether it's off Google, whether it's in our network, whether it's with us, whether it's with partners that are on the web, whether it's with mobile devices, whether it's on desktop devices, whether it's from display ads, search ads or video ads, if you look at it what we're trying to do is we're trying to make sure that when an advertiser wants to reach users, we can provide them a comprehensive solution that they can go ahead and advertise. And if you couple that with measurement which is what sort of makes online so much more compelling that if you are going to look at measurement, look at analytics around it, so advertisers get a lot more information. They have lot more options and of course in the end we want to make sure that we focus on very high quality ads. So if you combine all of those things, we think we can continue to be working towards providing them comprehensive solution and we work really hard with all the players in the ecosystem whether it's publishers, agencies or other media property owners, so we feel good about this.

Larry Page

Our next question.

Operator

We'll go next to Justin Post with Merrill Lynch.

Justin Post - Bank of America Merrill Lynch

Thank you. A couple of things. First, on the rest of world acceleration, could you let us know if there was any platforms like mobile or products like maybe YouTube that really kind of kicked in the quarter that really help drive that, maybe it was Google Play? And then on Motorola it's now getting close to \$1 billion run rate on annual losses. Could you remind us of the synergies that you're seeing with that and why you're encouraged by that and maybe when that could start to turn the other way? Thanks.

Patrick Pichette

So clearly on international, not only is our kind of core search business performing very well, but also as you've seen other revenues which includes the Play platform is actually doing pretty well internationally. So those two are the big contributors for that one. As we stand on Motorola, I mean Larry mentioned it very well at the beginning of the call, right? It is still early days for us. I think that we have Dennis and the team have already made a huge transformation at Motorola. We have now great product quality, the Moto X,

the first of the products that have come out and it's actually been very well received, a great product. So the team is now really working on building out marketing and distribution which is the kind of phase of it. So that's the mindset that we put in Motorola. This is not a this quarter or next quarter but much more – a more fundamental kind of optimistic and recent view of the company. So that's how we think of these issues. Thanks, Justin.

Larry Page

We may have time for one more question.

Operator

We'll take our final question from Douglas Anmuth with JPMorgan.

Douglas Anmuth - JPMorgan Securities LLC

Great. Thanks for taking the question. Just two things I wanted to ask about. First, just on Enhanced Campaigns, can you give us some sense of what it meant for overall spending in the quarter and then also how do you get advertisers to use the location and time of date, modifiers going forward. And then just on the U.S. business there was a [decel] there of about 500 basis points from last quarter? Patrick you mentioned the networks shifts there obviously, but was there anything else going on there?

Patrick Pichette

No, I mean, on your U.S. network it really is as you know there are changes in policies. They basically affect dramatically more our network and because of our network, think of AFS is really very heavy weighted to U.S., that's really what's been the main driver for that change. I will let Nikesh take the front end of the question.

Nikesh Arora

Yes, in terms of enhanced campaigns, I'm not quite sure what do you mean by what it meant for overall spending in the quarter.

Unidentified Analyst

Is it positive, I mean, was it incremental to revenue do you think in the quarter?

Nikesh Arora

Yes, we don't -- do we say it on the enhanced campaign, so we're not actually trying to quantify the effect, because we believe its part of your

overall experience and its step in the right direction in terms of what you want to achieve. In terms of your question as it relates to location and time of day modifiers. I mean these are requests from advertisers, but to give you an example usually when a car rental company advertises when somebody is in airport, they're likely to get a higher click through rate and higher conversion than if somebody is searching for car rentals when they're sitting at the desktop. So the location can be used as a great modifier in terms of advertising, in terms of getting better conversion, that's just one example. We've millions of examples like that where you can actually use location very effectively or time of day very effectively, the traditional example of when I'm hungry you show me an ad more likely to click an ad that offers me restaurant choice or food choice than if I'm not hungry and it's late at night. So there are different modifiers that allow us to pay different advertising. People shop more at lunch time, so there is a whole bunch of stuff that comes in when you start providing location and time of day modifiers. So I think it's good. Thank you.

Larry Page

I want to thank everyone for spending so much time with us and turn it over to Patrick.

Patrick Pichette

Just before we close the call, I think we've great news to announce. I mean all of you that have worked with us, with the investor community group; you know that Willa Chalmers who is part of our IR team has been kind of missing in action for the last few weeks. I'm just incredibly proud to announce that Jacob Allen Chalmers is now in the world and has arrived a couple of days ago, mom is doing incredibly well, so Willa is doing great too. So just to let you know that she has not disappeared, she is doing great, the whole family is. We are all ecstatic about it and it's another great kind of Googler addition for the family. So that's why Willa disappeared for a few weeks.

With that, I will turn it back to Larry to close the call.