Operator

Good day and welcome, everyone, to the Google Inc. Fourth Quarter 2010 Earnings Conference Call. [Operator Instructions] At this time, I would like to turn the conference over to Jane Penner, Senior IR Manager. Please go ahead.

Jane Penner

Good afternoon, everyone, and welcome to today's Fourth Quarter and Fiscal Year 2010 Earnings Conference Call. With us are Eric Schmidt, Chief Executive Officer and Chairman of the Board; Larry Page, Co-Founder and President, Products; Sergey Brin, Co-Founder and President, Technology; Patrick Pichette, Chief Financial Officer; Jonathan Rosenberg, Senior Vice President, Product Management; and Nikesh Arora, Senior Vice President and Chief Business Officer.

This call is also being webcast from investor.google.com. A replay of the call will be available on our website in a few hours. Now let me quickly cover the Safe Harbor. Some of the statements we make today may be considered forward-looking including statements regarding our expected level of capital expenditures, Google's future and investments in our long-term growth and innovation and the expected performance of our business. 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 as of the date of this presentation, and we undertake no obligation to revise or publicly release the results of any revision 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 we use on this call, such as operating income and operating margin, are also expressed on a non-GAAP basis and have been adjusted to exclude charges related to stock-based compensation.

We have 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 will now turn the call over to Eric.

Eric Schmidt

Thank you very much, Jane, and thanks, everybody, for getting on our call. Your time's very valuable. I'm really glad that you all could join us for our quarterly call as reasonably scheduled. We've jumped on the call to talk about the other announcement of this afternoon, which I think everybody is getting a chance to read.

We've had a very strong quarter and a very strong year. And I think as our resultS show today, our outlook is very, very bright. Larry and Sergey and I spent the lot of time talking about how to run everything. The last decade, of course, had been fantastic and we anticipate this will continue. How can we run the company even better? And just after a long series of conversations, we decided to make some changes in the way we are structuring, the way we actually operate things.

Historically, we've always been running the decisions together. And ultimately, it adds delay and so forth in the way we make decisions. It's actually better to clarify it. So the proposal, which would ultimately now the board has completely approved, is by elevating me and by having Larry running things day-to-day, Sergey focusing on the areas he's going to talk about. We think that this will produce even better success for the corporation. And of course, we're going to do all this by April. So, Larry, do you want to introduce a little bit about your thoughts?

Larry Page

Well, first, I want to really congratulate Eric. He's done an outstanding job leading Google for the last decade. I don't think when Sergey and I started the company, we would have imagined, we could have possibly have imagined we would have a better leader for the company. And we all are in great debt to Eric. And I think the results really speak for themselves. There is no debate about that at all. And there's really know one else in the universe that could have accomplished what Eric has done. And Eric is really a tremendous leader, and I've learned a ton from him over the years. And I think his advice and efforts going forward as Executive Chairman would be invaluable to me and to the company as I start this new role.

Google and I want to say is just incredible opportunity. And when we started Google, people actually thought we were coming in too late, that there were already a lot of other search engines. And the Internet and really people's computing life is really still at the very early stages. And I could not be more excited about moving us forward, and we're really only at the beginning. I just can't wait to get it started

Eric Schmidt

Thank you, Larry. Sergey, do you want to talk a little bit about what you would like to get done in this new structure?

Sergey Brin

I'd like to, first at the outset, mention that I had a great time working together with Larry now for about 15 years and with Eric for about a decade. And both of them have really inspired me and moved me, and I'm looking forward to many more decades of work together.

Now as we have tried to make, to clarify our respective roles now, I would like to work more on my personal passions, which corresponds of several significant new products that I hope to tell you about in the future. I'm not going to, I know it's been accused of vaporware just recently in the press and what not, so I don't want to repeat that error. And I hope to tell you about them in the future when I'm ready to show you something.

But nonetheless, it's really a privilege to work with these two gentlemen, to continue to work with them, and at this company that I've been really proud to be part of all this time.

Eric Schmidt

Thank you very much. And as for myself, I want to get a chance to work on the things that I'm most interested in, taking a more strategic view of things. And I'm going to focus on customers, partners, various government communications, external issues more than the internal issues that I've historically been focusing on. So that's a significant, I think, improvement in the kind of things that I could do with my time.

And I want to say very clearly that I believe Larry is ready. He's been working on this area for a long time. His ideas are very interesting and clever, and it's time for him to have a shot at running this and doing it. And I'm sure he'll do a fantastic job.

It's interesting that a decade goes by very fast when you work in a partnership as wonderful as this has been, and I'm quite sure that this partnership will continue. We're friends, we're co-workers, we're computer scientists, we have a common vision. I don't anticipate any material change in any of our strategies or anything. We tend to agree on pretty much everything. But I do believe that as a result of this, we'll operate and execute the business even better. So with that, I thought maybe what we should do is have a few questions before we rush off. And then, Patrick, thank you so much for accommodating us on to your call.

Patrick Pichette

It's our pleasure. Jay, if you don't mind, what we'll do is we'll have two sets of questions for this afternoon. We'll just take a few questions now because we have Larry, Sergey and Eric. And so we'll take a few questions. And then after that, we'll close that section of the call, let them run back, go back to work, guys. And then we'll take the regular call as we usually proceed.

So, Jay, if I can ask you to give us the instructions to take a couple of questions for Eric, Larry and Sergey?

Question-and-Answer Session

Operator

[Operator Instructions] We'll go first to James Mitchell of Goldman Sachs.

James Mitchell - Goldman Sachs Group Inc.

I guess one question I have just stemming from the results from the movements perhaps, when I look at the investments in 1118 Avenue in New York City, do you feel that Google is now at a point where in order to continue facilitating the growth of the Internet, that there will be a land grab for desirable physical locations?

Larry Page

I think our primary reason for purchasing the building there was not the Internet infrastructure there but rather the office space that we really enjoy using. The Internet tenants are great, well-paying tenants. We appreciate having them there, but that's not the primary reason why we purchased the building.

Operator

Our next question comes from Spencer Wang with Credit Suisse.

Spencer Wang - Crédit Suisse AG

Just a big picture question for Eric. You mentioned that one of your areas of focus will be on government outreach, and it seems like Google's maybe come under a little more regulatory scrutiny over the past several years. So I was wondering if you can just talk a little bit about your strategy with regulators to just ensure that Google can continue to expand as necessary?

Eric Schmidt

The simple answer is that we're talking to them. An awful lot of the problems that we've been having are people don't actually understand what we really do and what we don't do, and some of our competitors are assisting in that misinformation. And so part of our core strategy is literally to communicate.

This is what we're doing. We're trying to be as transparent and collaborative as possible. I will tell you very clearly that the regulators have a proper job to do. They're there for a reason and we respect that. And so far, we've been quite successful by just taking the time to get people to understand. And we're sensitive to the close lines. This is where we get too close to something and we try to stay away from that. We try to stay well within the safety zone of the way we're operating, with respect to the legal issues and the competitive issues. We also argue very strongly that the things that we're doing are very pro-competitive. And I genuinely believe that, and I'll be telling people a lot of that for a long time as expected.

Operator

Our next question will come from Imran Khan with JPMorgan.

Imran Khan - JP Morgan Chase & Co

Larry, as you become the CEO, I think it was just very interesting juncture of Google's life cycle. And I think there's a lot of questions that we get from investors that the proliferation of social networking and how the traffic, more and more traffic source to the social networking platforms are becoming. So as Google get to the next level, how do you think about the realtime search in the social networking platforms that are becoming a better brand and the Web applications and the Mobile apps? How do you think Google will become the point of play and you can send traffic to other places?

Eric Schmidt

Sergey, you've been driving most of this, and maybe, Larry, you could comment as well.

Sergey Brin

Yes. I think that you point out two important trends, I think. One is the notion of realtime. And the other, the broad notion of social in terms of identity, relationships and so forth. And I think both of those are very important to search. In fact, you've seen over the past year or so us roll out functionality along those lines. First of all, of course, we have the realtime updates now built into our Search, which includes Twitter and other sources. You've also seen us to deploy social search, which allows you to find search results that are related to people who you know and friends of their friends and so forth. And you see those right in the main Search Results of the Web. But I think that this is really just the tip of the iceberg. And I think there is far more opportunity. We've touched just 1% of the capabilities that could be deployed in that realm. And I think you should expect us to continue to develop those kinds of capabilities.

Eric Schmidt

Larry, did you want to add anything to that?

Larry Page

I mean I have the last part of what Sergey said really resonates with me. I think that there's -- if you think about the next five years of what your life will be like, online and socially, and what kind of things the tools would be able to do, we're only at the very, very early stages of that. And I'm incredibly excited about the possibilities to come.

Operator

Our next question comes from Justin Post of Bank of America.

Justin Post - BofA Merrill Lynch

We've noticed a lot of changes on the site, moving you farther down the purchasing funnel. And we've heard some regulatory pushbacks, so maybe this is a question for you, Eric, but also potential some advertiser complaints. So I'm just wondering how the changes in your Search Ad results, are they really driving your revenues and helping drive the strong growth? And how are you dealing with the advertisers and the regulatory environment on some of those changes that might be replacing some of the functionality of other websites?

Eric Schmidt

There's no question that our extraordinary results are partly coming from algorithmic improvements that we do all the time. Our basic strategy, of course, is to have the right ad and the right spot done exactly right every time. And we do, literally, billions of these every day. And so that's sort of the great magic of Google, if you will. We've looked very, very carefully at how we make the decisions as to which ads go where, and so forth. And we're pretty happy with the choice that we make in terms of ranking ads, and so forth. There have been some competitor complaints and so forth of that, and we're doing a pretty thorough review. But so far, we're pretty happy with them, we think it will pass the necessary complaints and so forth that people are hearing.

So I think with that, I think we sort of run -- Patrick is saying we really run over our time. I really appreciate everybody sort of letting us come in and do this. I wanted to say to you that it's been a great privilege to be the CEO for 10 years, literally, a decade. And a decade is a long time to be a CEO. So I'm very much looking forward to this new role, a more strategic role in something where I can work on some new things, which I'm excited about. And I'm even more looking forward to working with my, literally, best friends and partners, Larry and Sergey. And I hope you all understand how powerful this triumvirate has been and how for us personally, and how much it means to us as individuals.

So thank you all and, Patrick, do you want to sort of take over?

Patrick Pichette

Absolutely. Thank you so much, Larry, Sergey, Eric, to take the time to join us this afternoon.

So with that, what we'll do is, if you don't mind muting your buttons, we're going to jump right into it. And we'll go to our more regular conversations. So I will start with my opening remarks and the financials, Jonathan is going to give us his read of the year, and then we'll be joined by Nikesh for our Q&A section.

So how else to talk about 2010 in Q4 as a phenomenal ending to the very good year at Google? I mean, our incredibly strong performance in Q4 and 2010 overall, is really a testimonial to the fundamental trends in a digital economy. Those trends, they're fueling huge opportunities for innovation, for growth, both at Google, but also in the entire ecosystem. One of these profound trends is the shift from advertising offline to online, and it continues at a quite rapid clip. And you've seen it fueling growth both in our core Search business but across the board as well. A case in point is revenue growth has in our core accelerated strongly in the second half of 2010, which is really particularly impressive, if you think about it, given that in Q4 2009 was itself a very strong quarter.

So in addition, investments in our newer businesses, the usual suspects of Display, Mobile, Enterprise, they are also in parallel, creating a second powerful growth engine for Google. Jonathan will give you more details on that in a minute. But at a high level, I just want to make it clear that how can we not be happy with the overall performance and trajectories of 2010 and on that basis, be excited about our prospects for 2011 and beyond. So let me turn for the specifics of the performance of the quarter now.

Let's go through the results. Gross revenue, we grew 26% year-over-year to $8.4 billion. Our Google website revenue was up 28% year-over-year to $5.7 billion, and we saw strengths across most major geographies and verticals. Our AdSense revenue was up 22% year-over-year to $2.5 billion, again, with continuous strength in our Google Display Network. Our other revenue was up 31% to $273 million.

Our global aggregate paid clicks growth was very strong, up 18% year-over-year, and up 11% quarter-over-quarter. This is really reflecting, as I mentioned, the acceleration shift of offline to online, without a doubt, as each year shows there is more and more holiday shopping happening online. Our aggregate cost-per-click growth also was pretty healthy, up 5% year-over-year, and 4% quarter-over-quarter. And note that FX had a negative impact on CPC growth year-over-year, although a positive impact quarter-over-quarter. Remember, too, that this is an aggregate number and that includes the dot-com and AdSense properties.

If I turn to our geographic performance, the U.S. and the rest of the world are both growing at a very healthy pace, and our results clearly show that, while the U.K. continue to lag a little bit in the global economic recovery. Revenue from the U.S. was up just shy of 30% at 29% to $4.1 billion. And in our earnings slides, that you can find at our investor 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 programs. So I encourage you to go to these slides for the exact calculations.

The international revenue accounted for 52% of our revenue, $4.4 billion, and up 25% year-over-year. And it includes $25 million of benefits from our hedging programs so a relatively small number. Using fixed exchange rates though, our international revenue would have been roughly $132 million higher year-over-year. As I said, the U.K. was a little slower, and it was up 14% year-over-year to $878 million.

If I turn to expenses, traffic acquisition costs at $2.1 billion, or 25% of advertising revenue. Other cost of revenue was $877 million, including stock-based compensation of $45 million. And finally, all operating expenses totaled $2.5 billion, including approximately $351 million in stock-based compensation, SPC.

The increase year-over-year in OpEx was primarily due to our increases in payroll, advertising and promotion spend and professional services. As a result of all this, our non-GAAP operating profit, which excludes our stock-based compensation, increased at $3.4 billion in Q4, resulting in non-GAAP operating margin of 40%.

Our headcount was up approximately 1,000 for the quarter. And we ended the year roughly at 24,400 full-time employees. Our effective tax rate, you should note, was 19% in Q4, and this reflects the R&D tax credit legislation that passed in December in the U.S. and for which we recognized the full benefit in Q4.

Now let me turn to cash management. OI&E was $160 million for Q4, which reflects the continued good portfolio management performance, and it was offset a little bit by our FAS 133 expenses. For more detail again on OI&E, I just encourage you to refer to the slides that accompany this call on our IR site.

Our operating cash flow was very strong at $3.5 billion for the quarter. CapEx for the fourth quarter was $2.5 billion, I mean, obviously significantly above the last quarter, but remember that the majority of this increase was from the purchase of the New York building. The remaining balances was, as usual, primarily related to our data center and operations.

As a reminder, we'll continue to make significant CapEx investments and yet, you have another data point to show that they do tend to be lumpy from quarter-to-quarter depending on when we are able to make these investments. We're very pleased with our free cash flow. Despite having purchased the office building in New York, right just shy of $1 billion, and the office building is obviously a one-time event.

So with all this being said, Google is in an excellent financial performance for 2010, incremental revenue for the year of $5.7 billion and operating cash flow, around $11 billion. That is a phenomenal performance, plus, a digital economy that's clearly on high gear. So why -- in that context, you can understand why we're so optimistic. And it's with confidence that we're pursuing an aggressive growth agenda.

We talk about growth agenda means investing. And so here's a couple of places where we have decided to invest in and will continue to invest. First, we talked about the intense competition, if you remember on our last call, in for labor. So as part of this strategy to answer this challenge, we have announced a compensation change in Q4, which will affect all of our employees.

We've made two changes to attract and retain the best talent. First, we raised all base salaries by 10% across-the-board. In addition to that, we shifted some compensation from bonus into base salary for non-execs, and I repeat or non-execs, which will result for them in more stable income for our employees. And please note that all those changes are really becoming effective on January 1 of this year, so they're not included into our Q4 results. Remember also that with salary increases come ripple effects, such as 401(k)s or employee taxes or other that will actually flow through as well.

So if that's for compensation, we've also made and continue to make strategic investments in sales and marketing for both new products but also advertiser acquisition. Product areas like Chrome and Chrome OS, which are such part of our future, follow our core philosophy of building these open platforms with big optionality and creating infrastructure where everybody on the Web can succeed. We'll continue to push on those but also, acquiring advertisers will and continues to remain a top priority.

We're also investing in our long-term infrastructure, including both facilities and our core computing network. As you've seen in Q4, the purchase of New York City office was not only a wise investment but a clear commitment to our New York City site and frankly, a reflection of our optimism about our growth prospects. Investing in innovation is also about making tough choices. And we've made them throughout 2010 as well by choosing to close products or initiatives that weren't working as well as we would have liked or just had run their courses.

So for examples, we did shut down the Wave product, and we've also shut down our consumer channel for Nexus in 2010. And also, many other smaller projects that we wouldn't talk usually on the call but things like GOOG-411. And yes, we're investing aggressively but with discipline. Really, as we mentioned in the last call, pouring a lot of resources on what we call our hockey sticks, with a clear focus on long-term ROI. And yes, we'll continue to invest heavily but with the same proven discipline and results that you've witnessed from us over the last few years.

So in summary, we are incredibly pleased of our performance of 2010, optimistic of our trajectory for '11 and beyond. Accordingly, we continue to invest aggressively in a bold, innovation agenda. So with that, I'll turn it over to Jonathan to speak about the product muscles in Q4 in 2010. And then we'll take it over to Q&A. Jonathan, all yours?

Jonathan Rosenberg

Well, thanks, Patrick. So we certainly did have a great year at Google. And I really like to think some of it stems from the unique way that we manage our product and engineering machine. When we hire product managers, they often come in and they ask me, they say, "So how do we measure success at Google?" And I always told them it's simple. At the end of the year, we make a list of all of your successes and your failures. You're then measured on the sum of your successes and by how much you learn from your failures.

So at the beginning of 2010, one of our concerns was that as we scaled, this approach might lead to our being spread too thin. Instead, we thought, maybe we needed to put more wood behind fewer arrows. So we made some changes. And I think they addressed this concern without actually affecting the basic philosophy of how we've always run product and engineering at Google. So let's talk about what we changed.

At the beginning of the year, we decided to double down on the core, so that's Search and Search Ads, And I think the financial numbers that you guys are seeing today reflect the fact that, that was a successful bet. But behind those numbers is a really relentless stream of new features and product innovations. For example, we made a big effort this year to make Search more interactive, and you can see that with Google Instant. And then more recently, we made previews instant as well. And earlier in the year, we launched new user interfaces for both Web Search and Image Search to make it easier and to make it more intuitive to work with the results after you run a search.

And we're also making Search more intelligent. We made several changes to results. So you now you can see things like a concert schedule, or the answers to the questions highlighted right in the snippet. And we're also now starting to roll out Place Search. So when we know that you're looking for something that's in the neighborhood like an ice cream shop or something, we'll pull reviews, webpages, the address and the photo, altogether for you.

We also doubled down on the Ad side of the house. In the past year, we've launched several new ad formats, which we've told you about, Sitelinks, seller rating ads. Recently, we just added this product listing ads with photos and prices. It makes sense that if I'm shopping for something like a coffee maker, it's helpful to see more information in the ad. But the biggest boost of all came from good old-fashioned ads quality improvements. Q4 was our best quarter in years from a quality standpoint. We launched over 20 updates, which led to gains that were nearly double those that we would normally see in a strong quarter. So although we've been at this for years, we're still finding lots and lots of ways to make ads better.

The other change in 2010 was that several of our new businesses started to achieve escape velocity. And our philosophy is to encourage lots of innovation, and then we see feed the winners and starve the losers. And this creates kind of a Darwinian, but sort of Google-y, environment in which new businesses emerge and grow. And in 2010, it's really clear that some new winners started to emerge, like Display. We now have over 2 million publisher partners. The number of transactions on the DoubleClick Ad Exchange tripled, and publishers who sell their ad space via the Exchange are nearly tripling their revenue when the Exchange wins the auction.

YouTube revenue more than doubled. We began adding features like live streaming to help partners deliver and ultimately, of course, to monetize content in new ways. Enterprise added impressive customers like the U.S. government's General Services Administration. And we expanded distribution with partnerships like the deal with Softbank in Japan. Android, now activating over 300,000 phones per day. This helped drive a 10x year-over-year increase in the volume of searches from Android devices.

Then finally, in 2010, I think we we're more structured in our approach to our business. The product and sales teams are working together more closely than ever, thanks in large part to my buddy here, Nikesh. Patrick's rigor helped us dynamically reallocate resources and as he mentioned, cancel a few projects like Wave and Nexus One direct to consumer that weren't achieving their goals.

So what does all these mean for 2011. I think you can expect more of the same. We're going to double down again on the core of Search and Search Ads. We're going to feed the 2010 winners, Display, YouTube, Enterprise and Android, and we're going to do it all with even greater financial rigor and cross-functional coordination all over the world.

But I'm also excited about the prospect for a couple of our newest businesses, Local and Commerce. In Local, over 5 million businesses have claimed their Google place pages. And we recently started testing a new ad product, which we called Boost, and that gives businesses a really easy and fast way to promote themselves online and to connect with the people who are searching for them.

In Commerce, we're investing a lot to close the loop from online to offline shopping. I think I've mentioned on four different earnings calls in the past couple of years, the key to unlocking mobile commerce was to make it easier for people to both search and then to consummate their transaction from their mobile device. Someone in my team actually counted back on the calls and it was four times. I think as smartphones become ubiquitous and local businesses put their inventory online, I think this is the year where phones will play the big role in commerce that I've long predicted.

There will be some important differences in 2011. We will invest in hiring even more product managers and engineers. We're going to give them greater autonomy, and we're going to push them to work faster. In fact, we're asking everyone here to do more and to do it faster.

Through the year, we'll tally our successes. I'm sure you all will probably remind us of any failures, so we can keep learning from them. I hope you all now better understand our sense of optimism from a product perspective for 2011. I'm confident you guys will help us keep track of how this year's product efforts play out on the important score card of financial progress.

Thanks a lot and back to Patrick

Patrick Pichette

Thank you, Jonathan. Now Jonathan and I have made a noble attempt on the back of the big announcement of today to keep your attention over the last 10 minutes. So I hope that you'll have taken all the notes that you had to. And now what we'll do is we'll turn it to Jay. Nikesh is joining us, so he is getting set up in his chair with his phone. And we'll turn it over to Jay, and we'll go to the Q&A section of this call.

Jay, give us the instructions please?

Operator

[Operator Instructions] And we'll go to Ben Schachter with Macquarie.

Benjamin Schachter - Macquarie Research

Jonathan, I wanted to ask you question about Mobile, and specifically how Google thinks about the differences between tablet users and smartphone users, and how those differences are really influencing the high-level view of how you're viewing the overall evolving mobile market. And then Patrick, if you could address the sales and marketing line, which I think was somewhat unexpectedly high.

Jonathan Rosenberg

Sure, Ben, we can take that in order. I'll go with the first question. I think it's probably easier to talk about initially how tablets and smartphones are similar, right? Both of them are growing at a terrific pace. As is the case of Mobile, what we see on these devices is that search usage on the tablets tends to peak on the weekend and it dips on the weekdays, so it's generally complementary to desktop, which we've talked about before. What does that suggest? Maybe, the people are using them more for personal usage as opposed to business. We do see on tablets the weekend peak is a little bit more pronounced than it is on phones. I think that's probably the case because people pretty much always carry their smartphone during the week. Some of the bigger differences, the tablet users tend to search more for things like news and they tend to do more shopping-related topics when you compare them to smartphone users. I think there's some anecdotal data that they may convert better, but I haven't actually been through all of that in detail. I tend to think that the tablets behave a little bit more like desktop devices than do smartphones because it's a little easier to input information into them like a credit card. I think the other major difference is the UI approaches are different, right? Apps, like the Gmail App for the tablet, is more designed for the big screen. So I think they're both taking off, and the revenue from tablets as well as smartphones reflects that. Patrick?

Patrick Pichette

All right, I'll take the second question. If there is a good proof that we just don't kind of like streamline our lines in terms of expenses, but we go opportunistically and in a smart move, I think sales and marketing is a great example of that. And if you think of the last 12 months, what we've clearly shown is how much in high gear is the digital economy. And when that opportunity shows up, right, we just needed to jump on it and decide to fuel it. And on the marketing side, and even on sales, I mean Nikesh -- I'll actually ask Nikesh to give you a bit of color on the sales side. But on the marketing side, when you have big platforms like Chrome and Chrome OS, that can and will be incredibly successful if promoted. Why wouldn't you do it now? I hear from the financial community, the other side, which is what are you doing with your money? Well, we have great opportunities, why wouldn't we jump on it with this kind of market? And on the sales side, Nikesh, you could probably give a color commentary as well.

Nikesh Arora

Thank you, Patrick. I think what is important for you to understand, we decided to put our sort of foot to the pedal later in this year. And there was an area of our customer that advertises we decided to continue to put more focus on which is the small to medium-sized advertisers because where that's where a lot of our growth engine is going to come form in the future. And effectively, a lot of the sales costs there are advertiser acquisition's costs because once you bring them into our system, they stay there for a while. And they continue to work and continue to generate more revenues. And some of the revenue performance you're seeing has been across the small channels or the mid-tier channels, and that investment is sort of already beginning to bear fruit.

Operator

Our next question comes from Mark Mahaney with Citi.

Mark Mahaney - Citigroup Inc

If I can ask a question on the local advertising play and it's sounds like you've got a couple of products you've been working on, rolling out for a while, and I think you also may have attempted an acquisition inter-quarter. Can you maybe quantify the opportunity for us, is this something that has always been part of the build up plan? Is there something you saw in the last 12 months that really indicated that this was the time to accelerate the efforts against local advertising? And then, do you already feel like you got all the assets now in place, or are you still going to look for more assets in order to have that play viable?

Patrick Pichette

Let me just -- as a preamble, all right, we do not talk about M&A. Local has always been part of our strategy. And Nikesh can talk about the initiatives, or just about the initiatives we're doing there in terms of the boost in the products that we have, or maybe Jonathan, the boost product. And just it's one more of the initiatives we have in local. But local is, just to kind of give you a sense of framework, right? It's one out of every five searches have some form of local kind of tendency or factor. So it's not kind of side event for us. Jonathan?

Jonathan Rosenberg

Sure, Mark. I mean, I think we've been very focused on Local since, wow, going all the way back to maybe my second year when we acquired Keyhole here with the Google, which was basically the original company that built Google Earth. And really, the idea was that ultimately the Web should be this virtual mirror of the world at all times. And that mirror of the world becomes much more useful. And when it's more relevant -- and it's more relevant to the users when you get everything organized around places in the physical world. And I think the other thing which has come into play more recently is that technology has made it possible through the use of GPS and smartphones for us to understand where you are. And so I think what we've recognized more recently is that because smartphones have become deployed more aggressively, that we can supply you with relevant information about the places that you're near with the appropriate contextual-oriented search. So if you're at a restaurant, you want to pull up a menu, you don't want just the menu that the waiter handed you, you want the one in there that has the reviews and the picks from your friends. So I think what's basically changed over the course of the last year is it's become easier for local businesses to identify themselves in context on Google, and it's become easier for us to find out where you are. And then, of course, we've mapped that with Nikesh's team, which is working on selling Boost and Tags and some of the other ad formats that we've developed specifically for Local.

Operator

Our next question comes from Doug Anmuth with Barclays Capital.

Douglas Anmuth - Barclays Capital

Patrick, can you talk a little bit more about your philosophy just around the New York headquarters? I think this is the first time where you've actually really come out and confirmed the purchase. And why do you need to own the New York headquarters rather than sort of getting access to it in some other way, and why is this a good use of capital? And then secondly, can you just talk, just following up on Local, discuss whether you really are building out more of a local salesforce in addition to obviously, the local products themselves?

Patrick Pichette

I'll take the first, and then I'll let Nikesh about the initiatives we're doing on the Local side. Look, we have 2,000 employees on site today in New York. And our business and our engineering center, it's a big engineering center, by the way, it's not only a big kind of sales center but it's a big engineering center. So if you think of the eastern hub being in that place, with 2,000 and growing at the pace at which we're growing, it's actually very difficult to find in New York, a place that would accommodate that number of employees in an environment that fits Google's standards and Google's needs. We do not -- I mean, we actually believe that living in a tower where there's a very small footprint on the floor to floor is terrible for the Google culture. So there's very few buildings in New York that actually can accommodate our needs, right? Replacing that building for us or moving out of there would actually be probably very difficult to find another place and then be prohibitively expensive. And then finally, it gives us a lot of control over growing into that space. So all this to say on top of what we believe will be is a very good investment. So for all these reasons, coming back to the previous, it's not about carrier hotel owning. Everything is about the Google-iness. So for all of these reasons, I think it did make sense. And we called it a one-time item because it just fitted so well our strategy. For the Local salesforce, I'll turn it to Nikesh to give you a bit more details on our strategy there.

Nikesh Arora

I think there's more to understand that Local, the way you define that actually ends up in three different interpretations. One is we've always had local features to our adverse products. You can always localized to your advertising towards users who are in a certain area, certain territory. So you always have the ability to localize. The other thing we've done in Local is the way I think local is sometimes synonymous with smaller advertisers and smaller territories. And towards that end, we have created the most simplistic set of products around Tags and Boost, which is more amenable to the advertisers. They don't have to do a lot of work. Sometimes they don't even have their own websites. And that allows them to still participate in the online economy. And third, we, for the longest of times, had partnerships with other companies who've been selling advertising on our behalf to smaller advertisers, be it in small local areas, or we've been using other partners who will use their salesforce to call on smaller advertisers for us. So we are going to use a combination of all of these three efforts to continue to pursue our Local strategy going forward.

Operator

Our next question comes from Brian Pitz with UBS.

Brian Pitz - UBS Investment Bank

Patrick, would you give us a rough organic revenue growth rate, excluding acquisitions? And then secondly, a question on Ads, are you guys seeing any competitive share shifts in dollars from Search or Display towards other social platforms or applications?

Patrick Pichette

So on the second one, I'll let Nikesh give you a sense. On first one, I don't have the breakdown and we don't provide the breakdown. But I can tell you that all of our core properties are growing very well, and not only our core properties but also our new growth businesses as well. When you look at the numbers for just the google.com growing year-over-year, 28%, right? How can you not be happy with that kind of performance? And so overall, we're very pleased with our growth rate of revenue. I'll let Nikesh talk about the second piece.

Nikesh Arora

I think it's important to understand that Search for the longest of times had been performance advertising. And so has the large chunk of Display, it's been performance advertising. Some of the newer players you're talking about are sort of playing the brand display space. So overall if you look at it, the stronger trend is shift of brand dollars from the offline world into the online world and continue of shift to some of those dollars, of sales and marketing dollars, into performance-based advertising. So we're seeing that shift both on our Search side. We're seeing that shift both on our Display side and also, seeing some brand dollars in the Search side and some brand dollars in Display side. So I think it's more than fair to say that right now, the bigger trend is the shift from offline to online. And there has been less of an allocation shift within the online world because all these measures, all these means are measurable, and you're seeing better ROI for these measurable events in both in the performance Display, performance Search. So that's where the trend is.

Operator

Our next question comes from Ross Sandler with RBC Capital Markets.

Ross Sandler - RBC Capital Markets, LLC

Patrick, a question on the Display business. If you look out and analyze the financial statements for just about any publicly traded ad network out there, these businesses seem to peak out, and the operating margin seem to peak out in the 20% to 25% range, do you think there's anything structurally different about Google's approach in the Display business that could allow Google to achieve higher operating margins? Or is it that just the peak for that kind of business model? And then, Nikesh, just the quick question on the ROW acceleration. So 31% year-over-year, can you talk a little bit about which regions that's coming from, or is it across the board? And is there any acceleration from new revenue areas like Display or is it just the core Search business?

Patrick Pichette

The fundamental -- on the first one, let me answer the Display and then I'll let Nikesh talk about the performance worldwide. I think in Display, the most fundamental issue is if you're on your own network or if you're optimizing for other's network and participating in other's network. So if you think of YouTube, it's our own property. And therefore, you have a completely different set of economics. And so you just got to make sure you don't compare apples and oranges. So one, obviously, has a much higher margin than the other, and the question then is the mix. So if you think of us in Display where we have the whole suite of services from what used to be Teracent and all the other pieces, then you have the mix of properties. And that's how you have to think about it. In terms of geographic split and performance, it's a fantastic story, so why not let Nikesh give you the color commentary on it.

Nikesh Arora

Just before this, adding to what Patrick said on the Display side, I think it's also important to understand the contribution of the Ad Exchange, which basically allows you to bring buyers and sellers together. And we are seeing a serious uplift for people who are participating on the Ad Exchange in terms of revenue. So whilst your traditional Display business, you might be seeing margins profiles are different and I can't predict the future margin profiles but clearly, there's an uplift and a benefit to advertisers who participate in the Exchange or publishers who participate in the Exchange. So that's also beneficial...

Patrick Pichette

To tell it differently, we have three resources in that because you have the Ad Exchange on top of that.

Nikesh Arora

So in terms of the sort of rest of the world performance, I think there are some things which are notable this quarter in addition to our usual stalwarts where the U.S. continues to be strong and the rest of the world is strong. Germany has maintained its strength because of its economic development, which has been different from the rest of Europe, so that has showed up in our results as well. I am very particularly excited about some of the turnaround we've achieved in Japan because we've been putting in a considerate effort over the last many months to try and put an aggressive foot out in the marketplace in terms of bringing in more partners, more advertisers and generally, upgrading the entire effort in Japan from our side, so we are seeing the results of that. In addition to that, some of the commodity markets, markets where the commodities are strong, are Brazil, Australia. So those have been strong in general. The U.K. continues to be weak, as you notice, but it is very strong market for us, it's a big market for us as well.

Patrick Pichette

In closing on that topic, I think it's worth noting if you do your financial math and you move rest of world into constant FX, so if you take out the fact that we had crosswinds over year-over-year, in fact, our growth rate for rest of world is over 30%, it's C:\Transcripts\Calls\118059477\VoiceWriter31%. So again, very good momentum there.

Operator

Our next question comes from Scott Devitt with Morgan Stanley.

Scott Devitt - Morgan Stanley

Paid click growth on a percentage basis was the highest rate in two years, and you mentioned a few things on the call, better ads, better targeting, even local monetization. And I was just wondering to what extent some other factors came into play as well, particularly Google Instant and the rollout of that product, as well as the incremental nature of smartphone and tablet queries.

Patrick Pichette

So I think that for paid click growth, that you really have to look at a couple of factors. And I just want to start by kind of debunking a myth on Google Instant, right? Everybody seems to have -- there's kind of a buzz out there that Google Instant is the driver for a lot of the revenue growth. And in fact, Google Instant is neutral. It is not making any significant contribution to our revenue growth. What's really making the contribution is that there's really -- our growth is driven by three interdependent drivers that are all acting and tooling together. One is, clearly, the strength of the economic recovery and the consumer shift online. And you can look -- ever since Thanksgiving, and you've seen it from external sources as well, people have moved online. They're spending a lot of time shopping online, looking for coupons. So the behavior is strong economic recovery, which brings a lot more auction into these -- a lot more participants into the auctions because they want to be where the users are. In addition to that, right you have a second compounding factor pounding on it which is platforms are changing, right? The use of mobile phones, iPads, Instant Search tool, but also GEO, the fact that you get instant location, you can get coupons, all these things, right, just from a platform perspective are driving it on top of it. And then finally, right, it is true that Jonathan's teams fantastic job at making great ads tuning and monetization like the VizURL, and Jonathan you may want to take a second to talk about VizURL. It's those factors that are really driving the CPC growth and the click through rate growth rather than instant search. So I just want to be clear because I know there's a rumor on the street running that it's all about Instant search. And Instant search is about the user. It's people spending 10% faster, that is a huge number, 10%. And that's why we did Instant search. So maybe VizURL is a good example that you want to talk about, Jonathan?

Jonathan Rosenberg

Sure. I guess other than the ads quality improvements, which I can cover in a second, I think the only other area that Patrick didn't cover would basically just be the new ad formats, all of which are boosting click through rates. And I mentioned those in my prepared remarks, the product listing ads, more recently, offer ads, coupon-based ads. The seller ratings, which we've also launched, have significant impact in click through rates as well as the Sitelinks. But I think that probably the most significant thing in terms of what impacted the whole ads area this quarter was this concept that we call Visible URL. And basically, what we did was on the top ads, we moved the advertiser's URL down to its own separate line below the creative rather than having it be part of the creative. And that obviously makes it easier for people to see where they will go as they click. It's actually a little bit of an interesting story. I'll give you some of the background because this is by far the most significant change that we had from ads quality perspective in a very long time. It turned out early in the quarter, some of the engineers in Japan noticed that it was really hard to read the creative because we actually had the ads URL, which was in Latin characters, mixed in with the ad creative which was in Kanji. And it didn't really take brilliant research to figure out that human perception gets really confused when characters switch like that in the middle of a sentence. People just sort of skip the whole sentence. And if they skip something, that's sort of really bad when that sentence is a text ad. So we ran this experiment in Japan and we moved the URL down to its own line, and click through rates went up dramatically. So we launched that feature pretty expeditiously in, I think, Japan, China, Korea and Russia. And then what happened is the engineers kind of said "Well, hey, just for fun, let's try that in the rest of the world. " And we actually didn't expect so much because we didn't have the same dynamic of Latin characters versus Kanji, but it turned out that people skip sentences with long, unusual words in it. So people were tuning out that line. And we quickly launched this feature globally. It was one of the fastest things that we ever launched after the ads testing. I believe we launched it right around Thanksgiving. And that had a very significant change in the clicks that we saw in the course of the quarter.

Patrick Pichette

So just to close on that, just to kind of say, it is, and I know that Jonathan has used that trumpet a number of times in the past, but just continues to illustrate how much more innovation there is left in both formats and in just all the things that we do in terms of innovation in the ad space.

Operator

Our next question comes from Jeetil Patel with Deutsche Bank.

Jeetil Patel - Deutsche Bank AG

If we look at your kind of a revenue line from a kind of customer base standpoint, whether it's Fortune 500 or Ad Age 100 versus Internet pureplay indemics, and then the small to medium-size business category, I guess the SMB category was weaker during the credit crisis and you had a hard time coming back, I'm curious as to your thoughts as to how it's coming back today. And do you think there is a different way of approaching that SMB market as you look ahead into this year and going forward in terms of products or maybe ways to help drive leads or sales in that segment of the market?

Patrick Pichette

I'll let Nikesh answer the question. Just one point of clarification on your statement though and during the recession a couple of years ago, I think you mentioned that we thought that SMBs were kind of going down. And in fact, Nikesh will clarify, they were going the other way. So Nikesh, I'll leave it to you to answer the question.

Nikesh Arora

I think the important thing to understand is we're seeing such a disproportionate amount of strengths from the very large advertisers across the board because effectively what's happened over the years is that they've gone out and really strength their e-commerce offerings, they've gotten their act together, they've got all the logistics in place. And given that this was the quarter of Christmas and Thanksgiving, you saw a tremendous amount of strengths from large advertisers wanting to play against the pureplay Internet players. Now in addition to that, what has also happened is we've put an effort over the last six months on the SMB and mid-market side. In the mid-market side, we've basically gone ahead and adopted a higher touch strategy. I even spend more time on the phone with our customers. We even go and visit some of our mid-tier customers because to be fair over the years, they have grown to be larger mid-tier customers than they used to be in the past. So we have put in sort of a conscious higher touch strategy. And last but not the least, for the smaller advertisers, we are working very closely with our product team and Jonathan and his team to try and look at various systemic and algorithmic improvements we can make, working with them in large direct marketing campaigns and where we can continue to sort of reduce churn to that the area and continue to acquire more, which is related to the other comment on slightly higher sales spending on trying to acquire smaller advertisers. So we have efforts across the board, across all three categories. We don't think that effort is done and fully over with.

Jeetil Patel - Deutsche Bank AG

Do you think the business model or pricing model has to be different there, whether it's percentage of sale or some other kind of approach to going after the spend in that segment?

Nikesh Arora

No, I think to be fair, if you look at the simplifications we have done on the ad work side and local products, which is another way of thinking about smaller advertisers, that is a way to create a simpler product for them where they don't have to put in a lot more effort or we have things like keyword-less ads where they don't have to go ahead and sort of work towards creating keywords or will work. On the Display side, we've got contextual targeting where you can create ad groups very, very quickly. So we may continue to make product improvements which allow things to become more and more simple so advertisers can sort of go and do their daily business as opposed to spend time understanding more complicated stuff on our side. So yes, you're right, they are different, simpler products we create for them, which have slightly different pricing, so that they can continue to participate in the online economy.

Operator

Our next question comes from Jason Maynard with Wells Fargo Securities.

Jason Maynard - Wells Fargo Securities, LLC

I had a question just on the Mobile business. Last quarter, obviously, you saw some increased momentum. I'm curious just from a pricing perspective, what you're starting to see from the advertisers? And what kind of progress did you see over the last 90 days? And maybe more importantly, as NFC starts to become more prevalent in smartphones, I mean how do you think that changes the dynamic in terms of what type of effective monetization you're going to see from the Local Commerce side?

Patrick Pichette

So let me give you just a few starts to kind of continue to keep the contacts, right? Mobile search grew 4x on Mobile devices for web browsers in the last year. So there is no doubt that this market is just absolutely cranking. And there's a lot of work, and I'll let Jonathan talk about it, about ad formats are still kind of nascent and building, both on the Display side and on the regular side, and we see a lot of upside. Jonathan, you probably want to kind of cover those.

Jonathan Rosenberg

Yes. We don't really actually break out the details in terms of the exact difference. It's certainly the Click-to-Call ads are generating millions of calls every month. A lot of advertisers are running these campaigns. I think one you can see if you tried is DirectTV. We did launch a call-only option where the only clickable link in the ad is actually a phone number, which not surprisingly substantially increases the click through rates on mobile devices. And we've extended some of the desktop formats pretty successfully to Mobile. Sitelinks is one. If you try a query on Oakley, you'll see one, if you seller ratings on something like running shoes. So I think there's a lot more to learn there, but the advertisers are very excited and engaged. At the moment, I don't have any specific comments on NFC other than to go back to the statements that I've made in previous calls, which is when people are completing transactions with these devices, it becomes much more tractable and obviously significantly more valuable.

Operator

Our last question comes from Steve Weinstein with Pacific Crest.

Steve Weinstein - Pacific Crest Securities, Inc.

First, you commented that you're going to be shifting more compensation to base pay from bonus. I was wondering if you could let us know what the ratio had been historically as far as those two components of comp? And finally, obviously, the acceleration of all the metrics is pretty exciting, pretty positive for the outlook. I was wondering if you could help us understand though how much acceleration is happening within the core business? And how much of the acceleration is maybe some of the newer businesses really starting to get some scale, and maybe tipping the overall momentum in the business?

Patrick Pichette

On compensation first, as I said, we raised all salaries. So if you think of kind of financial modeling for a second, all salaries had been raised 10% across-the-board, January 1. And that has a ripple effect on -- the kind of ripple effect of the employee taxes, 401(k)s and all the rest of the benefits. It will also impact, obviously, everybody that we bring on this year as well. So as we bring in new people, they are costing us now slightly more. In addition to that, what we've done is part of the bonus is kind of calculated without giving you the exact number. We had two components to our annual bonus. One, which is a company multiplier, and one which is an individual multiplier. And what we've done for the non-execs, because we want execs to actually continue to be treated differently, the non-execs are treated in that what used to be a company multiplier, which didn't really have a lot of influence on, we shifted over to base pay. And their individual multiplier component of the bonus continues to be a very kind of directly involved into their calculation of their personal bonus. So by shifting that company multiplier we didn't have a lot of influence on, right, it just moves into more predictable cash flows for them all through the year rather than waiting for the end of the year, and that was the rationale for doing it. In terms of revenue growth, I mean, last quarter, we gave kind of two syndication points on Display, on Mobile, right? We've talked about the fact that our core -- if you look at our Enterprise Business, 30 million users, 3 million businesses on apps, the kind of magnitude of numbers we're talking about in each of our growth areas, whether it be Mobile, whether it be Android, whether it be YouTube, where we continue to have YouTube, right. I mean to give you a snippet, YouTube's revenue more than doubled in 2010, right? So that's why we're optimistic across-the-board, and that's why we're very kind of open about the fact that when you have such a digital economy running in high gear, why don't you take the opportunity to invest at the time where it is actually transforming itself. And that's what we're doing, and we're delighted in fact to continue to push hard on that. And that's what you see also in sales and marketing.

With that -- let me reiterate, so I probably hope I got your attention back because the front end of this conversation got totally sideswiped by the big three, you guys showing up and taking over our seats and phones, but phenomenal year end to what has been a terrific year. I have to thank all of our Googlers. They do an amazing job every day. It looks easy when I show up with Jonathan and Nikesh and talking about these fantastic results, but our Googlers do an amazing job all around the world, and so does our partners. And so to them, thank you so much for your fantastic efforts in 2010, and we'll just set up for a fantastic 2011 again. With that, I'll let Jay close the call.