

Operator

Good day, everyone and welcome to the Google Inc. Second Quarter 2012 Earnings Conference Call. Today's call is being recorded.

At this time, I'd like to turn the conference over to Willa Lo, Investor Relations Manager. Please go ahead, ma'am.

Willa Lo

Good afternoon, everyone, and welcome to today's second quarter 2012 earnings conference call. With us are Pat Pichette, Senior Vice President and Chief Financial Officer; Nikesh Arora, Senior Vice President and Chief Business Officer; Susan Wojcicki, Senior Vice President, Advertising.

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. 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 as 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 this 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.

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 to Larry.

Patrick Pichette

Thank you, Willa, and good afternoon everyone. Thank you for joining us. So, well, this is a special call as we enter into a new chapter in our history at Google here with our recent acquisition of Motorola, and with it comes a new set of financial information for all you both at a consolidated, but also at the segment level.

So speaking of Motorola, it's worth noting that given the recent close of the transaction, we can expect this specific segment of our financials to continue to show some accounting variability. So for example, this quarter it's a stub period, so meaning it only reflects the results since the acquisition dates rather than the full quarter. And as a result of the close, we did a number of accounting adjustments typical for such transactions. So we'll try to do our best to answer your questions on this call. And our investor relations team will also continue to support the analyst and the investor community during this transition.

So now, let's quickly cover our consolidated result as well as segmented reporting for both Google and Motorola.

Our gross total consolidated revenue grew 35% year-over-year to \$12.2 billion and 15% quarter-over-quarter. So again, please remember that these total consolidated numbers include the stub period for Motorola. Additionally, there was a significant year-over-year currency headwind in Q2. In fixed FX, revenue would have grown to 39% year-over-year instead of 35%.

Google on a standalone gross revenue grew 21% year-over-year to \$11 billion and 3% quarter-over-quarter. Our Google website revenue was up 21% year-over-year to \$7.5 billion and 3% quarter-over-quarter, which trends across most major geographies and verticals.

Google network revenue grew 20% year-over-year to \$3 billion, and 2% quarter-over-quarter. Our other revenue line grew by 42% year-over-year to \$439 million and 5% quarter-over-quarter. It's again worth noting that in fixed FX our revenue would have grown 25% year-over-year.

Motorola grew revenue for the stub period since May 22 at \$1.3 billion. Our mobile devices revenue for that period was \$843 million, encouraged by the strength of the North American Verizon franchise driven by the RAZR MAXX sales. Although we've seen also weaker revenues that were driven by the declining international sales of feature phones and mid-tier smartphones; the home business, revenue was \$407 million.

So the core metrics of Google standalone business continue to perform very well against the backdrop of a somewhat difficult global economic

environment. Our global aggregate paid-click growth was very strong, up 42% year-over-year, and also up 1% quarter-over-quarter. Our aggregate cost-per-click growth was down 16% year-over-year, and up 1% quarter-over-quarter. And please remember that the currency headwinds also obviously had a quite negative impact on the CPCs in Q2.

Turning to geographic performance of Google standalone business, U.S., UK and rest of world are growing at a good pace as reflected in our results. In our earnings slides, which you'll find in our Investor Relation website, you'll see that we've broken down our revenue by U.S., UK and rest of world, to show the impact of FX and the benefits of our hedging program. So please refer to those slides for those exact calculation.

Revenue from the U.S. was up 20% year-over-year to \$5 billion. Our non-U.S. revenue accounted for 54% of our total revenue or \$6 billion, and was up 22% year-over-year, which includes \$81 million benefit from our hedging program. The UK was up 20% year-over-year to \$1.2 billion, and then fixed FX term; in fact the UK grew 22%.

Coming back to an aggregate level for the total consolidated business; other cost of revenue was \$2.3 billion in Q2. Our non-GAAP operating expenses totaled \$3.3 billion, which excludes stock-based compensation and charges related to the severance and benefit arrangements in connection with the Motorola acquisition of \$652 million. Our non-GAAP operating profit was \$4 billion in Q2, resulting in non-GAAP operating margin of 32.3%.

For standalone Google, our traffic acquisition costs were \$2.6 billion or 24.7% of total advertising revenue. Our other cost of revenue was \$1.3 billion, and that's excluding SBC of \$82 million. Our non-GAAP operating expenses were \$3.1 billion, also excluding SBC of \$470 million.

Finally, non-GAAP operating profit was \$4 billion in Q2, resulting in a non-GAAP operating margin of 36.4%. This continued strong margin in our standalone Google business segment gives us the confidence to continue to fully fund our many strategic growth areas, such as mobile, Android, YouTube and Chrome. Obviously, Susan and Nikesh will go into more details of our initiatives in a minute.

At Motorola, our non-GAAP operating expenses including cost of revenue for the stub period were \$1.3 billion. And keep in mind that, intangible amortization of expenses and the step-up cost attributed to standalone Google and Motorola are included in these non-GAAP measures. And as a result, the non-GAAP operating loss at Motorola was minus \$38 million in Q2 resulting in a non-GAAP operating margin of minus 3% for that specific segment.

Headcount increased roughly 21,500 in Q2, obviously Google itself added about 1200, while the remainder of this number includes the Motorola employees who joined in the acquisition. In total, the consolidated company ended the quarter at around 54,600 employees, full-time employees status.

Our effective tax rate was 19% in Q2, and that reflects not only the mix of our earnings between domestic, international subsidiaries and our hedges, but also capital gains offset by carried over capital losses.

Let me quickly turn to cash management. Other income and expenses was \$254 million for the quarter, which reflects gains related to a divestiture of a business, offset somewhat by lower interest income and by the impact of our FAS 133 expenses from our hedging program. For more details [underway any], please again refer to the slides of the company or call on our IR website. Operating cash flow was very strong at \$4.3 billion for the second quarter. CapEx for the quarter was \$774 million versus last quarter at \$607 million. The majority of our CapEx was spent really related to production equipment, facilities, and man purchases. And obviously, we're pleased with our free cash flow, which was \$3.5 billion.

So now, let me hand it over to Nikesh, who will cover more the details of our business performance in the quarter, then Susan will cover our product highlights. And then finally, we'll open up the lines for your questions. And please note that Nikesh and Susan will discuss only the standalone Google business and not cover Motorola.

So let me turn it over to Nikesh.

Nikesh Arora

Thank you, Patrick, and hello everyone. Our business had a very strong quarter as you've heard with over \$11 billion in revenue. I'm going to talk about three broad themes today. First, how our recent big bets in the ad business are coming together into integrated platforms. I think digital advertising is really in defrag mode.

secondly, we'll take a look under the hood that how our investments and search advertising adds quality by helping our search business accelerate. And third, we're going to talk a bit about our enterprise business, which I believe is reaching a real turning point, then I'll discuss some ways for driving success for our customers and some marketing highlights.

So first, our big bets. In about four years, DoubleClick has gone from strength to strength at Google. Now it is the foundation of our display business. this quarter, we announced DoubleClick digital marketing, the first modern ad platform for the modern digital world. This was the biggest ever

overall for DoubleClick ad platform. It is used by thousands of agencies and marketers and we managed billions in marketing spend across the world on this platform. It now spans the best of display, rich media, exchange buying, surge and measurement.

Some of our recent display acquisitions, Teracent and Invite Media, which both grew by over 50% last year, are also seamlessly integrated into this platform. At the same time, AdMeld, which we acquired, is helping provide publishers control, flexibility and more revenue opportunities. Our display platform helps direct response in brand marketers navigate the whole web.

For brands, this quarter we unveiled the Brand Activate initiative. As seas of measurement and planning solutions baked directly into our platform, with our partners are building an online measurement for GRPs or gross rating points in a way to measure viewable impressions. Effectively what we want to do is we want to drive more and more advertising dollars in the brand space and this platform is going to be an effective way for us and we'll do that.

Recently InComm at a big advertising festival, creative agencies loved project [Rebif] this was one of our demos with the possibilities of how in modern digital marketing you can use multiple media formats to make advertising successful. That is quite a change from 2004 when our four line text ads weren't quite as exciting.

Another big bet as part of our integrated solutions is YouTube. I think in 2007 it was when newspapers frequently said YouTube is groping for an effective business model. I think we can declare we found our model. YouTube now unites the world through video from the Human Rights channel launched this quarter to a (inaudible) study confirming YouTube as a major global news platform. And for the first time, YouTube will be powering NBC's live streaming of the Olympics in the U.S. while also live streaming the games in London to 64 territories around the world.

Yearly account signups have doubled year-over-year and users are uploading over 72 hours of video every minute. This quarter we released a new YouTube app for Android helping users to find videos and follow channels from a mobile or tablet devices. We believe YouTube is now a proven winner for the whole video ecosystem. Thousands of partners are making six figures and we're proud to work with major record labels in Hollywood studios on this platform.

In fact, earlier in May, we saw an incredible digital upfront of it, Ban Car, highlighting our YouTube programming partners. Slightly over 13,000 clients attended, some of the worlds biggest advertisers were there and they're

making significant commitments on YouTube including people like Unilever, AT&T and American Express. If you're counting that's five successful acquisitions well integrated and helping us succeed in the advertising space.

The sixth is Admob, which helps power our mobile ads, both across Android and IOS and other mobile platforms future. Admob was integrated this quarter into AdWords, this has further turbo charged our ability to provide in-house advertising. That's more than a million advertisers with 300,000 mobile apps, 350 million devices at their finger tips.

The growth in the businesses with mobile website is stunning. Last quarter we rolled out GoMo which is the short for go mobile, that initiative was rolled out in 8 new countries including Germany, Japan and Brazil. Mobile friendly website are vital modern businesses and very important for our mobile search business. In less than one year the number of advertisers with mobile sites has doubled.

Other major upgrade to Google Analytics was made for mobile apps and the new AdMob SDK for developers turned out to an awesome quarter. For us mobile is like desktop was in 1999, smart marketers are getting great ROI and are developing native ad models that generate results for them. For example, we've had 15 million monthly calls for our click-to-call go format exclusively available in mobile devices in the US.

Let's talk about my second theme, the secret souls of search advertising. This quarter showed why we're so optimistic about search's continued growth. You know about some factors that drive search, the overall move to digital media and new search ad formats.

Privacy, we often underestimate one factor that you don't often read about. The amount of effort our product engineering teams put into the quality and precision for ads, that just keeps getting better. This quarter made 72 quality improvements and launched greater auctions transparency for search advertisers, effectively what results it improves the relevance of our add and making it more useful to consumers, it drives better results for our partners, clients and advertisers and it helps improve monetization.

Imagine if every single search ad was a perfect answer that drove the conversion for the customer, I think that's the objective that our teams are aiming for.

In Q2, our improvements included better triggering of site links and ads and improved ad rotation system, better geographical targeting, expanded match for keyword variance and a whole host of other improvements. As an example of benefits of these changes, the advertisers taking advantages of

new close variance feature and exact and phrase matching are seeing roughly a 2% increase in clicks in average.

Let's talk about the third theme, the technology, where we are in our enterprise business. I think it's become clear for us that we have a serious small, but growing business, which is going to be a future growth engine for Google. I hope you read this week about a company, who said competition was 50% more expensive than Google, and not as cool. That company is now \$200,000 a year Google apps customer.

Companies, schools, governments worldwide are moving to the cloud faster than ever. More than 5 million businesses have now gone Google worldwide. The traction amongst large organizations even such as the U.S. Department of Interior, Fairfax Media in Australia, et cetera. I think it's clear, you can't fake a commitment to cloud computing, and we've invested to build and scale a business that has gone from startup to upper crust.

Thousands of businesses switch to Google apps from our competitors everyday. Recently, we've launch products like Google Drive, Google Maps Coordinate, as well as the ability to edit documents off-line and in a whole range of mobile devices and tablets. That just shows you the pace of innovation that Google is bringing to the business technology.

With over 1 million active applicants of App Engine and the recent launch of Compute Engine, our Cloud Platform that makes Google's infrastructure directly available to developers and businesses.

Let's change the gears. Let's talk about countries and how our performance was across the world. Across all products, growth in the Americas and Asia was steady relative to the first quarter. The U.S. and Canada remains strong. Southern Europe slowed slightly as it was hampered by a poor macro economic in overall ad industry conditions notably Spain. On the other hand, performance accelerated in non-Europe driven by the UK.

Our clients span a full range of industries that are making the web work for their business. Let's take a few examples. Take the hotel and travel sector; in France, we work with (inaudible) to revamp and improve the search investment allocation across 23 countries. In Denmark, top travel site, (inaudible) shifted some of their TV budgets to YouTube and other Google branding solutions.

We're particularly proud about our achievements in the automotive sector from Detroit to Bavaria. This quarter's highlights included a contract with Tesla, and a (inaudible) deal with Audi to embed Google Earth in all of their cars. In Canada, we partnered with Ford around online video content and GM and Toyota is investing significantly in YouTube.

Switching gears to our agency partners, they are leading the charge in the digital era. I think we have the best relationships with agencies around the world than we've ever had before. And we are being able to move those relationships to real partnerships that allows them to work with their customers to make the web work for them.

I'm particularly proud of the work this quarter with our agency partner Starcom MediaVest Group to develop a global joint account planning project across 50 top accounts. We launched a digital training curriculum, covering Google products and digital trends, and we're able to train over 8,000 people.

(Inaudible) sectors are good examples, but our partnerships permit all the industries and across all countries. Spanish Health Insurance, Sanitas, made a major investment in search, and now that's become our most efficient channel from customer acquisition online accounting for about 25% to 30% of their new customers.

In France, Denon is working with us on a global initiative across our display and YouTube products, as well as U.S. pharmaceutical manufacturer Shire, Intel in China chose AdMeld for a cross-platform campaign on Android and iOS because of the reach that AdMeld provides them and the seamless solutions we offer.

And in Sweden, H&M is using Google+ social extensions for search addressing. Not only does it increase traffic, but it also gives them a large number of engaged followers. They've increased their (inaudible) in AdWords because of that by an average of 22%.

Let's talk briefly about marketing. Marketing is a key focus for our consumer products, and speaking about Google+, our marketing team continues to do a phenomenal job supporting our investments there. That's a Plus campaign is now in the U.S., U.K., Japan, France, and Germany and is helping to connect communities in Google+. Since this quarter, we organized hangouts with diverse groups, so it advances into the NBA to the UEFA.

As I mentioned the Cannes Lions festival, I'm particularly proud not only are we providing great marketing solutions to our partners and our customers, our own marketing team received two Grand Prix awards, one for Project Re: Brief where we worked with Coca-Cola to take an old ad and make it relevant in the digital media space, and two for our U.K. voice search campaign. But not only that they brought back 25 additional awards, five golds, eight silvers, 12 bronze, our own min-Olympics. That's our marketing team showing that innovation for everything we do.

I'll leave you with two final examples that show the diversity of Google's partnerships. In France, this quarter, we move forward with the commercial relationship with SNE, which effectively represents French publishers, to put out of print books into Google Play for Android. This helps user more easily access this material and enables publishers to generate additional revenue for their continent.

And second, from the sublime French literary tradition to even more sublime Doodle 4 Google contest. Our U.S. winner was Wisconsin second grader Dylan Hoffman, who in May compete a record 114,000 school children from 48 states. His school earned a \$50,000 technology grand and Dylan's Doodle grace to Google home page for a day.

I think Dylan is not listening to this call, but if he is, he's had a pretty successful second quarter as well. So congratulations and thanks to Dylan, his family and his school from Googlers all around the world, and thanks to all the Googlers that allowed us to have such a wonderful quarter.

I'm going to handover to Susan now.

Susan Wojcicki

Thanks, Nikesh. We also had a busy and productive second quarter for all of our consumer products. Let me start with Search.

Our goal is to deliver technology that just works. Larry has described the perfect search engine as something that understands exactly what you mean and gives you back exactly what you want. We've made a start for a more intelligent search, thanks to the Knowledge Graph which understands real world thing, their defining characteristics and their connections to one another.

Our Knowledge Graph currently includes more than 500 million thing, people and places, more than 3.5 billion facts about them. This includes entities like landmarks, celebrities, sport team, works of art and a lot more. For a summarizing related content all at one place people not only find what they're looking for, but they also make (inaudible).

For example, I was checking [films] this weekend, so I searched for the movie The Dark Knight Rises, from the Knowledge Graph results that's showed up on the right hand side of my search results, I was able to find out that the movie is coming on tomorrow, some information about the film and which actors star in it. Since, I didn't recognize all the actors, I clicked on the photos displayed and I was able to see biographical information as well as other movies they've been in.

The Knowledge Graph results also should need related movies that other people have searched for. I discovered a number of movies, including movies scheduled to come out later this year and next year that I also want to see.

The Knowledge Graph also works great on mobile. If you voice search for Julia Roberts movies on your phone, you will see a list of her latest films in the search results. And if you are running an Android device with Jelly Bean, our latest Android release, Google will actually say the list of movies back to you, powered by the Knowledge Graph in addition to giving you the traditional search results.

Also on Android, we introduced Google Now, a feature that intelligently brings you the right information at the right time, just for you even outward. For example, one morning last week, Google Now told me that (inaudible) 16 minutes longer than normal based on current traffic. All my schedules have been late or now gone. I didn't have to do anything, the information just showed up as a notification. Google Now also shows me other things I may care about like weather, driving directions, my next appointment, cool places nearby, slide updates and scores for my sports.

As you can see, we're serious about providing more intelligent results. We're moving beyond the search engine that just matches strings of words to one that understands the people, the world where people do. Just as a knowledge graph connects real-world thing; Google+ is a social spine that is starting to connect everything across Google. With a new Google+ local feature accessible from desktop and mobile on Maps, Search and Google+, the users can find and share nearly 100 million places and local businesses like restaurants and museums.

You just can make decisions about where they want to go based on Zagat scores, summaries and reviews from friends and people they trust who are on Google+. Once they decided where to go, they can use the New Events tab in Google+ to plan their activity and to share photos and comments before, during, and after the event.

We've also redesigned the Google+ app for both Android and iOS, and we're recently announced a Google+ experience for Google, for Android tablets and the iPad. More users are now accessing Google+ from mobile devices than from desktops. Today, 250 million users have upgraded to Google+ meaning, they've signed up for Google+ and created a profile. we're excited about this momentum, but we know, it's still early days that people build a community on Google+.

Moving on to shopping; this is another area where we're helping people more quickly turn their intentions into actions. In May, we announced a new commercial model built on product listing app, it's called Google Shopping and our transition to the new model will be complete in the fall in the U.S. By having a commercial relationship with merchants, we believe consumers will see more reliable and up-to-date information of our prices and product availability. A merchant should receive higher quality traffic to their site.

We're also experimenting with new commercial formats on Google.com that have product summaries and larger product images. These new formats are clearly labeled sponsors and they help shoppers more easily find and compare different products, or refine their searches by brand or product type. Try searching for camping tents to see an example of these new results.

Users can find special offers and deals with Google Shopping, and can shop with confidence when they see a Google trusted store badge on retailer site.

On the platform side, we had a lot of key announcements and launches at our Google I/O developer conference. Let me give a quick summary of the highlights. We announced 1 million new Android devices are being activated each day with more than 400 million devices now activated worldwide.

We showed our Jelly Bean, our latest version of Android and the Nexus 7, a tablet that is build for Google Play. More than 20 billion apps have been downloaded from Google Play. We announced that Chrome has 310 million users worldwide, which is up from a 160 million last May.

We brought Chrome for Android out of beta and we introduced Chrome for iOS which became the most popular free app in the Apple app store within hours of its availability.

We launched our new infrastructure service product called Google Compute engine, which lets developers and businesses run Linux virtual machines on the same infrastructure that powers Google.

Google documents became editable offline and we announced Google Drive for iOS. Drive is a place to create, share and store all your content that's available even without an internet connection, and it functions across Windows, Mac, Android, Chrome OS and now iOS.

We released 3D cityscapes in Google Earth for mobile, announced that travelers with an Android device can now access offline map of more than 150 countries. And expanded our Street View maps, our Street View feature in Google Maps to provide panoramic imagery in more than 3,000 cities, across 40 countries.

And then of course there was Sergey surprise demo of Google Glass, with a live video hangout with skydivers wearing Google Glass and jumping out of an airship nearly a mile above downtown San Francisco, and then landing on the roof of the I/O Conference Center. To see this demo for yourself, you can search on Project Glass demo on YouTube. I definitely recommend this video.

Thanks all for your time and now back to Patrick.

Patrick Pichette

Thank you, Susan. I'm never going to jump off with one of these balloon plane. So it was an absolutely unbelievable experience and thanks for Sergey's innovation on that one. One more thing just before we turn to Q&A, just a couple of announcements, one, we have just launched our Google+ Investor Relations page, which is designed really to be a great source for Google products updates and company news relevant to investors and shareholders. So please be sure to check it out and let the IR team know what you think of it. So that's just launched about an hour ago.

And as we are about to open the lines, I just also want to invite David Drummond, our Chief Legal Officer, he will be joining Nikesh, Susan, and myself to answer any questions that you may have. So welcome David to the call as well. And we are going to turn on now Jamie to the Q&A section. So let us know how we want to operate.

Question-and-Answer Session

Operator

Thank you, sir. (Operator Instructions) And we will take our first question from Mark Mahaney with Citi.

Mark S. Mahaney – Citigroup

Great. Thanks. Two questions please. First on Motorola, the comments at the time of the acquisition is that it would accretive, do you still feel that that asset can be in any thoughts would give us as to how you would make, what has been pretty consistently a loss leading asset that Motorola Mobile, how you make that accretive? And then a product on Search and what you find in terms of the appetite with the interest in voice search, Google has had a voice search capability for a while. But as you've noticed over time, people are more interested in using that less the quality of that versus whatever regular search. How interesting do you think that is as a growth area for Google in the future voice search? Thank you.

Patrick Pichette

So I'll just answer the Motorola question, and then let Susan jump in on the Search. On the question of Motorola, look we're totally excited about this opportunity that we have with Motorola, and our management team has been there only a few weeks. Clearly, everybody should expect some changes at Motorola that we have already talked about in the public domain and when we said, Dennis and the management team is there resetting and retooling it. but we have nothing really to announce right now. I think we have to let them do their work. but I can tell you that was a probable excitement in MMI for all the employees, but also for the clients.

So I just want to come back, Mark to your point on accounting. If you actually took out the accounting issues that were related to closing the transaction where it'd be just upgrade, the amortization of intangibles, and some of the adjustments that were related to the acquisition, in fact on the mobile side, they didn't have – they had a pretty stable and good quarter, and there's a lot of accounting noise in the data. So I think it's going to take one or two quarters before all that noise comes out. Susan, do you want to comment on the voice search?

Susan Wojcicki

Sure. Yeah, so I mean voice search has been an area that Google has been investing in for a number of years. we believe like we have really good technology here, because we've invested for so long on this. and as I mentioned in my – when I talked before hand, now with the Jelly Bean release, we have the ability not only to ask a question, but also to have the answers given back to you. And so, I definitely recommend that you test it out. it is very powerful and we think in the right circumstances, users will want to – some users will want to type and some users will want to have voice. And so in the circumstances where they do, was developed a really amazing technology that is leading edge on that.

Mark S. Mahaney – Citigroup

Thank you, Susan. Thank you, Patrick.

Patrick Pichette

Thanks for you questions, let's go to the next question please.

Operator

We will take our next question from Spencer Wang with Credit Suisse.

Spencer Wang – Credit Suisse Securities

Thanks, I guess one question and two parts for Patrick on Motorola. You talked a little bit about some of the accounting noise, Patrick, and it doesn't sound like it's finalized. Yeah, but, I was wondering if you could give us a rough sense of the purchase price allocation in terms of the hard assets, versus goodwill versus other intangibles so we can sort through some of that noise.

And the second part is, I was wondering if you can just talk a little bit about the Motorola home business in terms of how that fits in, if you guys consider that strategic? Thanks.

Patrick Pichette

Okay, so on the details of the purchase price we haven't given in terms of the asset and obviously the IR team can follow up with you on that, but I think in our disclosures the press release like, you will see like for example, intangibles was 30 some million in the case of Motorola and 32 I believe for Google. Just on the intangibles, so it gives you a sense of numbers for the step periods. As it relates to the home business, I mean, again a bit of the same story that I told Mark prior, which is, we've just got into the place and we're in the process of evaluating every business of MMI, in every division of it. So it's a little bit too early for us comment on big changes right now. So I just need a bit of patient for us to complete our home work as we've been there just for a few weeks.

Spencer Wang – Credit Suisse Securities

Sure, thanks a lot Patrick.

Patrick Pichette

Thanks Spencer. Let's go to the next question please.

Operator

And we will take our next question from Carlos Kirjner with Sanford Bernstein.

Carlos Kirjner – Sanford C. Bernstein & Co. LLC

Hi thanks for taking my questions. I have two questions, one on mobile and one on YouTube. On mobile, have you conducted any studies on the impact of mobile adoption or search query demand by end users. And do you have a perspective on what portion of mobile queries are incremental versus cannibalistic for handsets and tablets.

And on YouTube, I think one or two quarters ago, Nikesh referred to Google Analytics as the unsung hero of the business. Thinking about YouTube brand advertisers, how do you give them visibility into brand advertising ROI in YouTube, and do you think you will be able to do that to get the dollars to flow and overcome the obvious challenges that you may have there?

Patrick Pichette

So, Nikesh would answer the second question; Susan on cannibalization of mobile versus desktop.

Susan Wojcicki

Yeah, definitely; maybe we've spent a lot of time looking at that to trying to understand how those two different types of devices and how those searches are interactive with each other. And this is very complicated, but I will say we believe that mobile searches are mostly incremental. For example on weekend, when you – those are out and about, you usually see a raise in mobile activity. And then when users are back on Monday, we see a raise of desktop. So, although it's not a one-for-one, we do believe that they are mostly incremental.

Carlos Kirjner – Sanford C. Bernstein & Co. LLC

And does it value Susan between handsets and tablets.

Susan Wojcicki

In terms of queries?

Carlos Kirjner – Sanford C. Bernstein & Co. LLC

No, on the incremental versus cannibalistic.

Susan Wojcicki

I mean we'd look – I think we're still in the process of trying to have run our analysis and trying to figure that out. I mean I think that the thing that handsets and tablets have in common is they're both on the go and people are willing to take their mobile, people use tablet certainly in the office environment as well. So, I would say, we're still doing the analysis on that.

Carlos Kirjner – Sanford C. Bernstein & Co. LLC

Okay. Yeah, so we have a clear view on the handsets and on the tablet there's more analysis to be done; on YouTube, Nikesh?

Nikesh Arora

(Inaudible) Carlos, hi, so in YouTube there are two different issues. And if you're talking about performance advertisers, they're able to look at ROI on YouTube versus other performance media on the online space. I guess more interesting when you start talking about brand, because brand is not just about the online space, brand is also about the television space. And we've done very exciting things, with single source panels, where we worked in Germany with thousands of users and try to look at advertising effectiveness and efficiency, not just on YouTube and online video, but also compared to television and we're incorporating data into our analytics and our sales pictures to show how the ROI is available on YouTube. We've noticed only doing at higher ROI, but we also get higher reach and higher frequency capabilities on YouTube, because you are looking at users on a very large online platform.

Patrick Pichette

Thanks for your question Carlos.

Carlos Kirjner – Sanford C. Bernstein & Co. LLC

Thank you.

Patrick Pichette

Let's jump to the next one please, Jamie?

Operator

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

Ben Schachter – Macquarie Research Equities

And just two questions, I was wondering first, give an update us on Larry's health situation and then I know it's early, but can you update us on the usage of Chrome for iOS devices, and any comments you can give to help us understand the importance of that product and also how you plan to market it. And then also, historically you've talked about self driving cars and some of these other projects as relatively low investment, high media profile projects, but it seems with Google Glass and some others and they are taking more management time and focus, should we be thinking about those differently? Thanks.

Patrick Pichette

Yes, I want to let Nikesh talk about Larry situation, Susan can talk about the second question on iOS Chrome and then I'll just take it to run, so Nikesh.

Nikesh Arora

There is no more new news on Larry. Larry has lost his voice and we said that means he cannot do any public speaking engagements for the time including today's earnings call, but he continues to run the company and he is here and involved in all the strategic business decisions that we're making.

Patrick Pichette

Susan.

Susan Wojcicki

And on Chrome for the iOS device from the moment we launched it was a very popular in the app store and we've seen this one of the top apps and it's something we've invested for many years on Chrome. It's got a lot of really compelling features, from security, being very fast and we continue to expect to see growth just because of the users using it for the different features that make it a really great product.

From the other things, the self driving cars and Google+, I mean those continue to be projects that from a headcount perspective are very – are small, we've talked about them being they are small, but they have the potential to be very big. And I think they are also projects that – we sort of think about them as moon shots a lot of time, like projects that we think can have really amazing capabilities, but again, and they get the company excited, but in terms of actual resources, it is a very small number.

Patrick Pichette

Yeah, the fact that Sergey is actually leading the Glass project doesn't change any of the strategy. So from that perspective just very exciting and fun to share it with people when we have such exciting demos. But I wouldn't change any of the strategy in terms of the real focus of management and our capital intensity.

Nikesh Arora

Thanks, Ben. Let's go to our next question please.

Operator

And we will go next to Scott Devitt with Morgan Stanley.

Scott Devitt – Morgan Stanley

Thanks for taking my questions. I had two please. You've previously referenced the Talent or in last year increased the cash compensation by 10%. I was just wondering given the transition of a number of companies that you compete with for Talent into the public markets, could you just give an updated view on the cost and availability of the Talent in the Valley? And then secondly on a last 12 months basis, Google has generated \$12.5 billion in unlevered free cash, so you now have an 8% unlevered free cash yield and you are generating cash at an run rate that equates to about 30% of the current cash positions. So I was wondering if you could just talk a bit about the way that you are currently thinking about capital allocation or specifically a share repurchase? Thanks.

Nikesh Arora

Okay. So let me start with the second one first. We continue, and I know that sound a bit like a broken record on this, but on a very regular basis, we actually debated with our board. In our – our cash position is really a strategic asset to us given all of the innovation that's happening, and all of the options that are available to us.

I mean it has been such, and you just take Motorola, which we just closed, I mean it was a real strategic asset to us to actually be able to pounce. So we haven't changed our position in terms of share repurchases or dividends or any of the others for a time being, which does not mean we don't evaluate. We do take a good look at it. We just think that it continuous to be a strategic asset for us, and so that's why we haven't changed our position yet.

In the case of the talent, I think that the Valley continues to be hot, I mean it's a hotbed of innovation. There's a lot of need for that talent, especially the very high, the engineering front, and we're delighted by our strategy. I mean we continue to see really benchmark levels for our retention purposes, and we continue to attract the very best talent. So for us, it is an absolute strategic asset again for the company. I mean, Googlers, the engineers that are here in the salespeople and they've really make a huge difference to the velocity of the company. So the Valley has not change, it content despite everything else is going on in the world out there are. The Valley continues to be absolutely hot, and we're still pleased to have seen our strategy pay out so well. So thanks for your question Scott. Very good question.

Let's go to our next question please Jamie.

Operator

And we'll go next to Heather Bellini with Goldman Sachs.

Heather Bellini – Goldman Sachs

Hi, great, thank you. I had two questions. First, what are you seeing in terms of mobile CPC trend, and how do you see these trends playing out over the course of the next 12 months. And then, the second question is, with the Nexus 7 on the market, can you talk a little bit about your plan to accelerate content acquisition in particular in video and book? Thank you.

Patrick Pichette

I think Nikesh is perfectly suited for both.

Nikesh Arora

Hi, Heather. Thank you for your question. Well, I think the good news is that we're seeing phenomenal growth in the mobile queries across the board, whether it's tablets, whether it's mobile phones, whether it's geographical or whether we are seeing phenomenal amounts of mobile queries across the board. I think as I said, mobile is right now where Search was in 1999. we had a situation where Susan's team was doing phenomenal product innovation to keep driving more and more efficiency for the advertisers. we were working with advertisers to get them to get better landing pages, better sites, get them to understand truly the opportunities on the mobile space for example. You can make phone calls, so we have a product called Click-to-Call. Now the Search takes on a whole different meaning, because there's a better conversion and people actually click and make phone calls.

So we are seeing mobile CPCs are healthy and we expect them the long-term that they will continue to be healthy and sort of follow this trajectory that Search has followed, more inventory, more effectiveness, more ROI for the advertisers, better pricing in the market. In terms of your second question on Nexus 7, I think we have made tremendous amounts of headway in the content space that we have a lot, lot of content on Google Play. we are working very closely with the music industry, with Hollywood studios et cetera, to get more and more content on the platforms, so I think given that there are models out there where other people are offering content to the platforms. it is becoming to the standards that you can have the ability to offer content to the end user and we are making tremendous amounts of progress across the board.

Patrick Pichette

Thanks for your question, Heather. Let's go to our next question please.

Operator

And we'll take our next question from Doug Anmuth with JPMorgan.

Doug Anmuth – JPMorgan

Great, thanks for taking the question. I just wanted to ask two things, just first following up on the mobile CPC question, can you just give us some color on what percentage of advertisers are bidding on smartphone to N tablets in addition to the desktop? and then secondly, Patrick can you also just help us understand the accounting around the Nexus 7 tablet and how we should be thinking about that on a growth versus net basis and the impact it may have going forward? Thanks.

Patrick Pichette

Okay. So I will let Nikesh cover the CBC and I also come back after.

Nikesh Arora

Yeah, actually I think I already said that in my prepared remarks that we have over 1 million advertisers working with us in mobile advertising and it gets over 300,000 mobile apps. So I think it's a substantive number in terms of number of advertisers are involved in mobile space. And I think usually people will get enrolled in mobile space don't distinguish between smartphones and tablets, they actually, they want to find the most effective ROI they can get and they want to capture as many queries as you get on these device. Patrick?

Patrick Pichette

No, the issue for the Nexus S, Nexus 7, the – I mean we have two sets of accounting, obviously, it's distributed on it's own by others like, you can get it at Best Buy and otherwise when you use the Play Store to actually buy it right, we book the revenue and then we book the cost as well and the cost will be in other cost of revenue rather than CAC or TAC, they're neither of them and that's how the accounting is set.

Susan Wojcicki

Yeah, and this is Susan, just one more thing I would add Doug on your question about the mobile CBCs and the percentage that are bidding, is a lot of campaign structures are setup so that when an advertiser participates in a bid, they actually bid, they can instead of one campaign and it can run across everything. And we adjust those prices dynamically for them, we have – it's called Smart Pricing. And so some advertisers do bid specifically

on mobile and then some advertisers have bundled campaigns and we adjust those prices. So it's not just advertiser that are bidding only for mobile that are participating in mobile.

Patrick Pichette

Thanks for your question, Doug. Let's go to the next question please.

Operator

And we will go next to Justin Post with Merrill Lynch.

Justin Post – Bank of America/Merrill Lynch

Great. When you look at your international result ex-FX, they actually were stable or even accelerated. Yeah, we are hearing a lot of issues over there. Can you talk about geographic mix, what countries are doing well or vertical mix and any product enhancements or new products you've launched that are really helping your revenue growth there. And then secondly, TAC to distribution partners was up about \$40 million quarter-over-quarter and continues to be a bigger chunk of your Google website revenues. What drove the quarter-over-quarter increase, was that mostly mobile or are there other factors? Thank you.

Patrick Pichette

So, let me jump on TAC, and then let Nikeshe answer to the first question. So TAC, it's really a mix, right, obviously TAC reflects a mix of the different distribution methods that include toolbars, chrome distribution, mobile distribution, and also obviously the AFS business as well. So there's a – if you look at our revenue mix between Google properties and network, right network will attach stronger, so that will drive TAC as well. And then, mobile is also one of these contributing factors. So we don't break down all these specifics, but it's not only mobile. I mean, we have a number of factors that are at play here. On the first question, I'll let Nikeshe circle back to you.

Nikeshe Arora

Yeah, I alluded to some of this in the prepared remarks. I think, as I said growth in the Americas and Asia has been steady this quarter. The U.S. and Canada have stayed strong, and as I mentioned, as you've said there have been some issues internationally. Southern Europe, we saw slide dip as we think it is hampered both by pure macro economic conditions and all ad industry concerns. Spain was a notable sort of lowlight or highlight depending on how you look at it in that conversation. On the other hand, performance accelerated for us in northern Europe driven by the UK and the

UK has been a little depressed over the last few quarters. So it is finally coming back and sort of we are seeing strength there again.

In terms of your question and on the sectors, I think travel has been strong pretty much across the board in the U.S. and the UK and around the world. Auto was strong in the U.S. for us, healthcare has been strong in the UK, and generally across the world, we've seen strong sort of performance both in finance and local, and we're seeing more and more sort of excitement and enthusiasm in sectors like CPG and entertainment given the shift to brand. But I'd say, this is the snapshot in time and these things change quarter-over-quarter.

Justin Post – Bank of America/Merrill Lynch

Thank you.

Patrick Pichette

Thanks, Justin. Jamie, let's go to our next caller please.

Operator

And we'll go next to Anthony Diclemente with Barclays.

Anthony Diclemente – Barclays Capital

Hi, thanks. One, I think for Susan, just if you can help us with the order of the magnitude the drivers of the divergence that we continue to see between CPCs and volume. I think in the past you've talked about, of course mobile is one of those drivers, but then FX, we have a sense of that, property mix, emerging markets and add quality changes, all driving that. So I was wondering if you guys could give us like a ordered magnitude of how important each of those key drivers were in the quarter and then how we should think about those trending going forward, if we should expect that divergence to normalize or should we actually expect it to continue to diverge? It will be helpful. Thank you very much.

Patrick Pichette

Susan, do you want to give some comments on it or Nikesh.

Nikesh Arora

I think, I had the CPC (inaudible) on this quarter and you can't have a good earnings call, if you don't talk about CPC, so here we go. CPC is an important metric for us, but if you take that independently, it's not necessarily a reflection of the fundamental health of our business. This

quarter, I'd say the biggest impact on CPC was actually FX. We have four or five factors that impact CPC, but the biggest impact this quarter was FX. We have clearly an impact of mobile versus tablet versus desktop, we have an impact of emerging versus developed markets, and what's happening from a macro economic point of view, that we've talked about, we have an impact on google.com versus network, so as you see the network playing a bigger role, it impacts CPC. And finally as quality changes, also impact CPC, but I'd say this quarter the impact has been felt because of FX, but from a positive perspective we see any time there was a change in CPC, which is more attractive for the advertiser that allows the advertiser get a bit of ROI, but for us it's an opportunity for the advertising.

Patrick Pichette

Yeah, it's important to know that the 16%, there was a big chunk of it, that was CPC versus the last quarter. I mean, as the euro kind of went down 9% year-over-year, I mean it obviously makes a big difference. So thanks for your question.

Anthony Diclemente – Barclays Capital

Okay, and that's a nice one. Thank you.

Patrick Pichette

Cheers. Let's go to the next question please, Jamie.

Operator

And we'll take our next question from Ken Sena with Evercore Partners.

Ken Sena – Evercore Partners

Hi, thank you. Can you just maybe talk a little bit more about the Offers business and do you feel strongly about that business as you did in the past. And maybe how that business actually will come into play with Google+ or on payments or (inaudible)? Thank you.

Susan Wojcicki

Hi, Ken. So yeah Offers continues to be an area that we are investing in, we have, I mean we think that there is a lot of things that are really important about Offers the way it's a local business and works with both small and large business it's got, there is a lot of user interest in it. So it is an area that we are continuing to invest in. We're also, as we continue to develop our business model continues to evolve. And for example, we are putting a little – we're working with a lot of the different Offers and providing

distribution for them in addition to generating our own Offers with our own sales team. So, but it continues to be an important area for us, and we'll continue to invest in the cities that we're currently operating in.

Ken Sena – Evercore Partners

Thank you.

Patrick Pichette

Sure.

Susan Wojcicki

Thank you, Ken.

Susan Wojcicki

Jamie, our next question please.

Operator

And we will take our next question from Ronald Josey with ThinkEquity.

Ronald Josey – ThinkEquity LLC

Great, thanks for taking my question. Going back to mobile and the opportunity there, Nikesh I thought that might be interesting if you could talk a little bit about, perhaps what you are seeing in terms of the campaigns and there has been an acceleration, now that AdMob is fully integrated in AdWord, knowing that there is over a million advertisers and 300,000 apps. I'm wondering if there is been accelerations since that's happened? Thank you.

Nikesh Arora

Hi, thanks for the question. I think as I said, we are seeing phenomenal amount of growth in the mobile query space and it's a consequence of more device, it's a consequence of more adoption of tablets around the world. It's also comfortable with the devices and using them more often. So with the number of questions they asked on the AdMobs. so AdMobs just got completed in early June. So it's a bit early to say, we're seeing acceleration. but generally, our performance throughout that integration has been very strong and we've effectively had a very, and what we've done about six months ago, as we took all of our sales efforts and we took our specialized mobile sales people, we had them trained all of our sales forces around the world. So that impact has even contributed more than just that integration

part. but we think the integration is just going to turbocharge that effort and hopefully continue to help us drive mobile. and mobile is going to be here for a while. I think it's a fact of life for us now. So we are mobile sort of becoming as core, as desktop search was, so we're making sure that all of our sales people around the world are fully equipped and working with every advertiser, not just 1 million to make sure that people can see ROI in both mobile and desktop simultaneously.

Ronald Josey – ThinkEquity LLC

Great, thank you.

Patrick Pichette

Thanks, Ron. Let's go to our next question, please.

Operator

And we'll go next to Jason Maynard with Wells Fargo.

Jason Maynard – Wells Fargo Securities, LLC

Hey, good afternoon. I have one question just on the shifted mobile and specifically around this will be both Nexus as well as Motorola. How important do you think it is for ultimate mobile modernization to actually control the whole experience on the device and given that you've got all sorts of different competitors some who subsidize evidently, some obviously telling full price, hardware, software combos, what do you think the right mixes for Google and when do you think you'll sort of sort this out and be a little bit more declarative in the market with your intentions? Thanks.

Nikesh Arora

I think, hi this is Nikesh again Jason. thanks again for your question. And as I said, mobile is very, very important. I think it's better to go back and think about what's happening in the marketplace. We said we're very committed to mobile; it's evident in our commitment to Android in our ecosystem as well as Motorola acquisition.

So we believe that mobile is very and very important critical to the future. Now, I know it seems a little complicated when you look at the different competitors, and how you talked about subsidies et cetera. We simplify that by focusing on, how do we provide the best experience to the user. Now providing the best experience to user, is effectively working really hard with Andy Rubin, Stephen Android making sure he is getting the best experience for the end-user and in that process he works with the best OEMs in the

marketplace to make sure that the combination of hardware and software allows for the best experience to be delivered. I think, for us what's important as to get that experience delivered and we will work with whatever the industry models that are out there, either we work direct with operators, trying to make sure that happens behind the end-user and more often they'll not be work with OEMs, to see how we can get the best agreed experience in the hands of the end-user. I think that's what we're going to focus on. So, I think that's quite declarative in terms of intention.

Patrick Pichette

Yeah. I mean just to close, open is really important to Google and in that context you see our strategy is very focused on end-users and been open and we are going to get a lot of benefit that we already have and continue to get a lot of benefit out of that. So, it's a complex question, there is no doubt about it. Thank you, so much for your question. Let's go for the next question please.

Operator

Now we'll take our next question from Lloyd Walmsley with Deutsche Bank.

Lloyd Walmsley – Deutsche Bank Securities

Thanks, I'm wondering if you could tell us a little bit about the rollout of the shift to paid inclusion for Google shopping and when you expect it to be fully rolled out and kind of what you're seeing today in terms of Paid Clicks and CPCs, now that some of the shopping links have been moved to high end results and where do you think CPCs there can go relative to just core paid search?

Patrick Pichette

I'll let Susan answer this one. Susan?

Susan Wojcicki

Yeah, so Lloyd, so we made this decision to move to a commercial model because we saw that ultimately this would drive a better experience for users and having more up to date information and more accurate price and inventory availability and so we are in the process of rolling that out. We think it will be rolled out. We expect probably completed around the Q4 timeframe. And we are working really hard with all the merchants to get them all on board, and again we think this is actually really good for both the merchants and the users.

We actually don't refer to this as feed inclusion, just because that actually is a term from the people who have been in the industry for a really long time meaning putting in, paid things into the search results, in a non-marked way. And we're very, very clear when we show this, we do mark everything very clearly as sponsored, and again we believe that actually moving to this model is good for both the users and for the merchants and we're really looking forward to this transition.

Lloyd Walmsley – Deutsche Bank Securities

Thank you.

Patrick Pichette

Thanks for your question, a very important piece for us. Let's go to our next question please.

Operator

We will take our next question from Kevin Kopelman with Cowen and Company.

Kevin Kopelman – Cowen & Co. LLC

Hi, thanks. Could you give us a sense of how big your mobile search queries are, as a percentage of total search queries? And also on Motorola, I know you're not giving us a business update, but could you give us what the Android unit growth was in the quarter on a pro forma basis? Thanks.

Patrick Pichette

Well, on the last one, on the mobile side, the non-home side, it's all Android. And on the search queries, we don't actually provide the details. We provide the geographics, but we don't give the details of the other one. So, I am sorry Kevin if we can't be more helpful on the granular details on this issue.

Let's see, we have time for one more question, let's jump on one last question, Jamie?

Operator

Thank you, sir. We'll take our last question from Jason Helfstein with Oppenheimer.

Jason Helfstein – Oppenheimer & Co.

Thanks for taking my question. I'll ask you just two. One, can you just talk about the growth of Google+ number growth, are you happy? I think you alluded to how that's going. What can you do to drive faster member growth and is that kind of part of the strategy or you just let it organically evolve. So kind of a push versus, I guess the pull strategy there. And then second, can you give us the breakdown of depreciation between Motorola and MII for the quarter? Thanks.

Patrick Pichette

Well, you'll have, in the segmented reporting you'll find that information. So, after the call, so this is for your second question, Jason. On the issue of depreciation, I think that the team can circle back which would give you the split, because we do the segmented reporting. On the first question, which is about Google growth and our success there, I'll let Susan cover that one.

Susan Wojcicki

Sure. Yeah, so, overall we've been really pleased with the growth that we've seen, you've talked about the \$250 million accounts that we have, Google+ accounts. And I do think it's also really important to remember that Google+ just celebrated its one-year anniversary. We actually celebrated that at IO. And so, we see that Google+ account growth has growing really well. We think that one of the most important things is that when you have a Google+ account you have the ability to share. And we've talked about Google+ being the social spine across all of our products ability to make all of our products better. Not just the stream, which is an important part, but also for example your search experience. So that if I have a friend, a friend went to hotel, and +1 that hotel, if I'm ongoing to that same location, I would you be able to see that information at the time that I'm doing that search. And so we have many, many use cases where we think being part of Google+ will be a better experience. And so we're working across the board to make sure that our products are integrated, we have a number of integrations across the products, probably local with the most significant one that we did this quarter, and we find that having those integrations by making the products better, also tried to more usage of Google+. So yeah, so thank you Jason, that was an important question.