Mary: We thought it made sense to have someone speak very high level about technology trends on the first day of our conference, and the list of potential speakers is remarkably short. And we're thrilled to welcome Eric Schmidt. Eric, you've worked at some of the most innovative technology companies, more also mo enterprises ever, Xerox, Park, Bell Labs, Sun Microsystems, you've been an engineer in Silicon Valley for more than two decades. You're on the board of Apple. You're the Chairman and CEO of Google. You're uniquely suited to share your views on how technology may evolve over the next five to ten years. We have 140 plus companies here from the technology area, hundreds of investors dining on a wonderful lunch in a box for the next 45 minutes. And what are the five to ten things in 15 minutes or less you think we should be thinking about. And don't worry, we'll also move to questions about Google and audience Q&A after Eric is done. Thanks. Thanks for coming.

Eric: Thank you very much. It's an honor to be here and to join you for lunch in a technology conference in an industry that is changing so very, very quickly. And in the years that I have had the privilege of being part of the technology industry, nobody gets it right, and I've certainly not gotten it right. But I've learned some lessons that I want to share with you and I'll make some observations about scale. Let me begin by making an observation about travel, right, everybody here travels all the time. And what I was trying to think is what happens when I travel now? What do I see? What do I hear? And the answer is that I hear the sound of mobile phones everywhere, all the time, all around the world. And using that as a metaphor, the numbers are quite interesting, the two billion phones took 20 years for it to get to a billion mobile phones. It's going to take four years to get to the second, take three years to get to the third billion. So if you think about it historically, we took this as a sign of our own wealth and our own privilege and so forth, and now everybody wants a phone, and everybody is going to use the phone. And that is fundamentally the technology story. We're in a business that's declining costs, we're in a business that's driven by a whole bunch of rules. The first rule which everybody here knows very well is called Moore's Law. And the easiest way to think about Moore's Law is that it's a factor, everybody says doubling every 18 months, it's a factor of ten every five years, and it's a factor of 110. And when you think of it that way, you begin to understand the underlying compounding is not done. It's just beginning. And there's something about humans with respect to compound interest where we cannot do the math right. We cannot foresee ten years from now what a world of 100 times better really, really looks like.

If you look at the numbers, and these are some set of numbers, there are many, many different sources of research, this is probably the best, it was actually done by Mary, 277 broadband users in 2006, worldwide growing to 413 million. Anybody here remember the last time you were in a hotel without a broadband connection where the dial-up modem didn't work and your Verizon or CDMA 3GSM card didn't work and you were really upset? What did you do 15 years ago

when you were in every hotel that was like that? Maybe you had a life. Maybe you had dinner with your friends or something. And now you can't anymore.

Mary: You can have box lunches at The Palace.

Eric: If you assume that at least in the majority of the Western World everyone is going to have a one megabit connection, which is roughly what 3G will offer, then you see our future is to be always connected. At the same time, the big screen revolution is also driving behavior. There's a lot of studies that indicate that these much larger screens that people use are also much more productive. So on the one hand we talk about the mobile revolution in small hand held devices, but there's a similar result or revolution going on with very large devices. So you have a combination of broad, essentially what we'll consider low speed connectivity at a megabit, and then these huge fiber based screens with enormous amounts of information coming to them. There is a return to massive data centers, and I want to talk about that because it changes the way you think about technology. And of course the combination of high quality screens and the power of CPUs and so forth mean that things like personal computers and McIntosh's are going to do very well over the next while.

If you stopped making new media, it would be possible to take all current media that's available today and put it on a single hard drive in ten years. That's the good news. The bad news is that the rate of production of new digital media of all sorts is expanding as quickly if not more quickly than any of the other scenarios that I'm describing. So, of course, the race continues, even greater capacity and so forth. It's the same speech. It's the same message. But we fail to do the compounding. And it's clear to me that the quadruple play, the combination of television, mobile, and fixed phone, and internet on fiber and coax and others is very much going to be the way in which we're all going to consume this. And it will have competition between the various operators of how they can do that most technologically.

When I look at this I see real problems that matter to consumers, information. How are you going to find everything in this? Well, of course that's search. Health, number one priority for everybody, huge issues in the U.S., everywhere else in the room. By the way, you're going to find that with search. And entertainment, which of course you're going to find also with search.

If you think about the technology as this plays out and you go back to my earlier point, there is another underlying transition, which is confusing for many, but is really the thing that's underlying driving this. It's generally known in a marketing term called Web 2.0, but I want to talk about it technologically. If you accept everything that I described, everything that I talked about is going to happen and you accept the doubling, the rate of Moore's Law, which is clearly going to happen because the physicists are busy working as we speak, then we have an

opportunity to change the underlying computing architecture, and I'm going to call it cloud computing. Various terms have been used to describe this, but it's important to understand technologically its history. In the 1980s, literally in this hotel, many companies in earlier versions of conferences like this talked about client server computing. And the characteristic of client server computing was that it was a proprietary operating system typically on a PC, a proprietary server based operating system, and proprietary protocols in between it. The internet has changed all of that, and a new set of companies, of which Google, many of the other companies represented here, certainly eBay, Yahoo!, Amazon, and so forth have exploited, the service is computed on the server and you need a relatively thin client, a relatively simple browser. The underlying technology that was invented of this is called LAMP, Linux, Apache, My SQL, PHP Pearl, Python, et cetera. And these technologies are what everyone is doing in universities today. All of the graduates coming out are building on top of this. This is a fundamental architectural shift, as fundamental as the architectural shift that occurred in client server computing that I was part of 20 years ago. And the architecture that's used to build these applications, generally known as AJAX, which stands for asynchronous Java script with XML, is a way of having the computers that are on the servers, literally the services and the data run on the service, and then you can basically access them using your ubiquitous connection, et cetera, et cetera; all those things that you were supposed to be doing when you were having dinner instead. And the fact of the matter is that that new architecture is now sweeping through all of these industries and all of these businesses. And the simplest way of thinking about it is has anybody here lost or dropped their computer recently and tubed the hard drive? It's like a disaster. So any rational person would put all the personal stuff somewhere else so that you could have lots of different devices. That transition is something that we have all talked about and foreseen in the industry for many years, but it's happening now. And it's the underlying architecture that's driving so many of these companies.

There's one other point that took me a very long time to figure out, that in addition to having the right technical architecture, you also have to have the right business architecture. Client server computing was populated and paid for by enterprise hardware and software companies, and I call this the Larry Ellison sales model. It worked very, very well. And Larry invented it as best I could tell. A direct sales force goes to a company, does a million dollar software deal with recurring revenue, and that pays for the software development. It's busy building all these client server applications. And I go to the engineers and I say you should talk to the sales people, and the engineers typically clueless go like why? And I say because they pay your salary. If they don't exist, you can't do what you want to do, simple, easy to understand, be nice to the sales guys. In the new model, a new version, a new way of monetizing this world came along based on advertising. In fact, based on targeted advertising. So it is not just the architecture that I'm talking about, but also the development of this new world that occurred. So when you, and I think I'll end with this because it's probably more interesting

to have Mary's comments and you all's questions, I want you all to think about the combination of the technology trends that I talked about and the explosion in new monetization as the metaphor for investing opportunities for the next 5, 10, 15 years. It is that sum that I think makes this so powerful and so effective. Mary.

Mary: Thank you, Eric. A couple of questions based on some comments earlier on in the day to focus on high level stuff, and then drill right down on Google. You're on the board of Apple, the iPhone captured people's imagination in a way that a new product hasn't in a long time. You talked about ubiquitous connectivity. Could this be the thing that pushes the small form factor device connectivity to a new level over the next one to two years?

Eric: The iPhone is certainly going to be an incredible product. And part of the reason that it is going to be so incredible is it's the first full featured phone with a real user interface designed around internet browsing. So as Apple talks about the iPhone they talk about it as both a musical device, a communications device, as well as a browsing device. If you look at the history of these personal devices, they were always closed in wall gardens. They always did not have access. But if you follow the metaphor that I was talking about, people want access to everything, they want access to all these powerful aps, they need a device of which the iPhone will be the first of I think many. And there will be many coming I'm sure.

Mary: So we should expect to see real impact from mobile devices on a larger base of software companies, not in the next six to 12 months, but really two to three years.

Eric: It's a function of how many devices there are. We know people, one of the things to know about these devices is that they are incredibly highly targetable. Google is a strange company in a number of ways. We, for example, don't have a revenue meeting, we have a quality meeting. We know that if we improve quality, revenue follows. We do that because we do targeted ads, and the more accurate the ads, the more highly targeted they are, the value of the ads go up. Very strange. It's completely the inverse of how traditional advertising works where if you show more ads you make more revenue. In a highly targeted model, if you show fewer ads that are better ads your revenue might go up. Very interesting. Phones turn out to be the first of a generation of highly, highly targetable devices because they're personal and they know where they are.

Mary: If we turn to Google and look at revenue opportunities, one of the things that has surprised people I think on the upside is how you've been able to improve your targeting and how you've been able to improve the monetization. Can you give us a sense of where you are in the evolution of that? Are you more comfortable that you can continue to turn the dials year in and year out? If we look at 2007, our

view is that targetability is kind of the big story that surprises people, and we start, as receivers of advertisers, we start to get a lot more targeted ads.

Eric: But without quibbling with your question, the same question could have been asked in 2002, 2003, 2004, 2005, 2006.

Mary: Sure. That's a good thing.

Eric: The fact of the matter is people are constantly surprised about the compounding and they, and I mean generally, always miss the fact that the world is a very large place, and that very targeted ads are very, very valuable. We are just at the beginning of our ability to do targeted ads, both as an industry and as a company. There's a tremendous number of new technologies that we and others are inventing to do more targeting. I mentioned mobile devices because you asked about that, it's possible to do it based on many, many factors, of which location and the person is just one.

Mary: If we, just to ask one sort of revenue associated question and then move on to some stuff on video because it's certainly topical, it is do you think that local mobile and the other stuff you're doing off of the internet, i.e. the tools related stuff, radio, print, et cetera, do you think those things are enough to add material revenue in each of the next two to three years, i.e. local in '07, mobile in '08, other in '09. If you don't want to answer that, that's fine, but any color on when we should think about the timing of the new stuff.

Eric: Again, a simple way of thinking about that is how big is the global advertising market? Some number between 600 and 800 billion depending on how you add, growing at roughly GDP. How many of, how much, what percentage of that advertising is essentially untargeted? 90, 95%. So, even small improvements in targeted, that is personalization, if you will, of advertising can drive extremely large amounts of revenue. The easiest one to use for those of you who have not been following this space is television. Most households have a couple of televisions, most households see a constant barrage of ads that are not appropriate for that household. There's no baby in the house, but the television shows baby diaper ads and things like that. Or there's no pet in the house and they show pet food ads, that sort of thing. That's an opportunity cost, that's an opportunity missed. So even a small improvement in targeting of any of the categories you described is a very large impact in terms of revenue. So we do see that. It's hard to call which year and what the rate is because these are large industries with complicated infrastructure issues, all of which we're working on.

Mary: Moving to video, it's gotten a lot of play in the media recently in part because the media owns the media and they're involved in negotiations with you and they certainly have agendas. But YouTube traffic continues to grow, the monetization opportunity is a very real one out there. The percent of video that's actually

monetized is low. You're striking a lot of deals with some of the non-mainstream video partners out there. How do you think this market plays out over the next six to 12 months? How important are the big media deals? How important is the timing of it? It certainly hasn't slowed down the growth of the medium at all.

Eric: Some time in the spring of last year online video took off. And by taking off I mean I don't know whether everyone got a camera at Easter or something, a video camera, but it happened in the United States, it happened globally, and everyone started posting everything that they could think of online. We saw this, we had a product called Google Video, YouTube of course saw this with an incredible spike in growth. Of course, that and a series of other steps took us to acquire YouTube. That growth rate is, if anything, accelerating. We're seeing across the board huge growth in video, both in terms of video search, video uploading, video content, and so forth as you said. It started off as what I call sort of my pet videos, right, so family videos, that sort of stuff. But there's now an increasing number of people who are using the internet for as a short form for entertainment and eventually for monetization I think. We're talking to all of the companies that you named at various stages, and they're all trying to figure out how to move to this new medium. The difference between the old medium and the new medium is the old medium is on a per view basis, I'm sorry, the new medium is, and the old medium is not. They pay _____. It's a difficult business model transition for them to go through. But they'll get through it in some form. So our strategy is, first and foremost, to get as much licensed content as possible on to YouTube and other sites, to index everything, and to develop the advertising tools that will enable people to actually make money on content of this new medium. The size of the business is very large. It's unclear what the monetization will look like because it's too early. We're going to have to find that out. It's sort of the big project for this year.

Mary: I hear that, that said we've got, you're starting to, for lack of a better characterization, clean up the site a little bit to make sure you've got the right content on the site and the media companies have scrubbed YouTube a little more than they had in the past. It is what it is. You know how many views you have. It's not hard to wrap a frame around a video. You know you don't want pre-rolls on a lot of things because the users don't want them. You can measure the clicks. I mean the monetization opportunity seems to be pretty compelling. And if I'm a traditional content company, I have trouble getting traffic to my videos, and you're the number one opportunity for them in that way. There's something missing in the puzzle.

Eric: There's an alternative model, which is an explosion of a large number of specialized sites, which hosts and monetize their own video. And that scenario is possible, though not likely. And the reason has to do with power laws. And in the internet, the internet runs by power laws, and there's a, a power law essentially looks like what you think of as the long tail curve. And a small number of

companies or institutions and/or sites end up getting the majority of the mine share. And our strategy of course is to be the number one there. And in that context, we're likely to have the most number of viewers, and we can monetize those viewers in many, many ways. The scenarios that you described, which were an iframe, as well as pre-roll, are two of many. The pitch that we typically make to somebody who is a content owner is that somebody who has gone through Google and YouTube to find your content is very valuable to you, Mr. Content Owner, because this is a fan. And a fan is a derivative of the word fanatic. And you can monetize them, you can sell things to them, you can get them excited, you can get them to buy more things, you can get them to go to your movies, you can get them to go to the basketball game or whatever it is. This message is working. People begin to understand it.

Mary: Do you think we'll see an increase in content companies purchasing key words to drive traffic to their sites?

Eric: We already are.

Mary: Okay. You've spent a lot on cap ex. I'll call it the server nation for lack of a better characterization or server globe. One of the things we learned at your analyst day about six to nine months ago was that you're actually buying servers to demand, you're not buying in anticipation of demand. So clearly there's a lot of traffic on those servers. Could you give us a sense of what the biggest incremental drivers are to that demand? And could you talk a little bit about WiMAX, there's actually a connection there.

Eric: We have a number of shortages inside the company. One of the most acute over the last few years has been data center capacity. And this is after special designs of hardware and special performance engineering that could only be done at Google, which is highly proprietary and very interesting from a computer science perspective. Part of the reason we have so much demand is we have so much more traffic than everyone else. The other one of course is we have much larger indices than everyone else, and we also do many large replicas. So it's commonitoric. We have a larger index, we have more copies of it, we have more global reach. It's the combination of that that drives the higher capital spending. Many people and people in this audience have asked me why do you need to spend so much money on capital? And the true answer is if we spend more, we will in fact generate more traffic, more monetizable opportunities, and more revenue. So there's a direct connection between our capital spending and our revenue results and our market share growth globally. Another way to say this is that two years ago, right after we went public, people were criticizing abut this, but the investments we made two years ago caused these exceptional returns we had last year. So there is in fact an implication, had we not spent that money, we would not have been able to serve that traffic, and those customers would have gone to competitors who would be doing better now than we are.

Mary: WiMAX, Paul Ottelini was sort of optimistic about it this morning, and I bring it up in the context of increasing demand and increasing access, what's your view on the two to three year outlook?

Eric: We have a direct correlation between broadband access and Google monetization. Everyone who is a broadband user is much more likely to be a Google user, and they're much more likely to use our advertising services. So anything that we can do, we Google, to encourage the adoption of broadband in many forms, of which WiMAX is one, we're reasonably indifferent as to whether it's WiMAX or the other choices. And it's clear to me that WiMAX will be one of the successful approaches, along with fiber to the home and the others, which are very important from our growth path perspective.

Mary: One of the things that the media loves to do, one of the things that investors love to do is pit Google against eBay and pit Google against Yahoo! and pit Google against Microsoft. What's your view of the outlook for those companies in general? And I say that because I think you're doing a lot of different things and all kind of help the entire internet show relatively strong growth. One might be excluded, but.

Eric: Microsoft is always a special case. We all are, the companies you named are critically dependent upon the build out of the internet globally. So we share a set of political agendas and public policy concerns, regulatory concerns, and so forth. I'm sure the broadband rollout is also good for them. But each of the companies you named has different strategies and all are riding at various stages of the wave that I talked about. I don't really think it's appropriate for me to talk about them directly, except to say that, for example, many people are concerned about competition in a market where, because they assume that these are zero sum games, an awful lot of people have said well, if such and such a company enters the market, that will affect your advertising revenues. But if you think about it, advertising is not a zero sum game. If you have a product you want to advertise, you're going to advertise on more than one of those choices. So the fact that one product is doing better or not does not necessarily mean that it would affect us negatively. In fact it might grow the market. And that's what we've been seeing so far.

Mary: On the competitive front, you're pushing Checkout very hard, why not just use PayPal?

Eric: Well, Checkout is actually a little different. PayPal is a stored value system for person to person, and Checkout is a way to get, the moment you see a product to purchase it and cause it to show up at your home or your office. And so far we're seeing a direct correlation between advertiser satisfaction, quick checkout times, and we believe bidding results. So we believe that the Checkout is central to

causing the value of our ads to go greater because if you think about it, the advertiser is trying to sell. Using Checkout, they can sell the thing that much quicker. So, Checkout can best be understood as a tactic around velocity. Just a tactic.

Mary: Okay. User generated content has a lot of momentum. YouTube is clearly at the forefront of that, so is Wikipedia. Do you look at them as a competitor or a partner? They've shown tremendous growth, a lot of momentum, answering questions, and becoming a resource for a lot of, and you're providing them with a huge number of links.

Eric: Wikipedia is an incredible global success, and a lot of traffic through Google ends up at Wikipedia. So we think it's absolutely wonderful. When you think about user generated content, it's important to remember that people have a lot to say. And the new generation of internet technologies is enabling them to say exactly what they think, whether you like it or not. So the rise of social networks, which are baffling to many people of a certain age, all of the –

Mary: People of a certain age.

Eric: People of a certain age.

Mary: I like that. Okay.

Eric: At least me sometimes.

Mary: I don't think you're baffled.

Eric: It's a new phenomenon, and it's very real, and it's very, very large, and it's going to be with us for a very, very long time, like the next thousand years. So people have a lot to say. And from our perspective that's good because it means more search. But anybody who thinks that the world consists of the model that I grew up in, which is a relatively closed network of communications models, relatively traditional modes of communication, that's all gone. And it's gone because everyone is going to have a mobile phone, everybody is going to be taking pictures, everybody is going to be talking to each other, and they're going to be doing exactly the same phone. And if you don't believe that, talk to your teenager or more likely watch them talking to everyone else why they ignore you.

Mary: I'm going to ask a few more questions then turn it over to the audience. But Google gets a wrap for being arrogant, and again, in the media with some of the partner companies that are out there. The irony is that you take 30% of your revenue, your gross revenue, and hand it back to partners. You have hundreds of thousands, maybe a million, close to, whatever it is, large number of advertisers, you're making a very large number of people very happy. Are you able to use that

effectively as ammo in the negotiations with some of the people that are trying, that you I guess the word frenemy, which was new to me, has been created around Google. And the reality is you're one of the best partner companies I think the world has ever seen if one looks at volume and revenue sharing.

Eric: Historically, the company has been certainly arrogant in a number of ways. And it was not until a few years ago that we started focusing, and this was an error, which I'll take responsibility for on partnerships. We didn't tell the story, we didn't talk about people, we didn't have the people inside the company to talk to the other partners, et cetera, et cetera. That has largely now been remedied. As you pointed out, we share an enormous amount of our gross revenue in the food chain throughout the organization. And it has worked well. The media are obsessed with Google on these issues for a number of reasons. The internal joke is that it's 70/20/10, at Google, well, 70% of the press attention is focused on 10% of Google, 20% on the 20%, and 10% on the 70%. And maybe that's the nature of how we're going to get covered. But the fact of the matter is that the model, that we are seen as iconic with respect to a set of model transitions that are very powerful, that would be occurring whether Google was part of it or not. So we've taken the position that these models are shifting, we will work with you to help you get there. And we will furthermore share in many cases the majority of the revenue with you to make that. And that works after the initial conversation.

Mary: A couple of financial related questions. Google has a lot of cash, very high operating margins, how worried should investors be that you just may turn on a dime and do something to radically change those positive attributes?

Eric: It's highly unlikely. One of the problems in the high tech industry, and a number of you have commented on this, is that successful companies tend to generate cash pretty liberally, and they don't tend to have good and rational places to put it. And Google is careful with these things. So it's not obvious to me where it would go.

Mary: The stock market hasn't been performing very well of late, and the market is oftentimes an indicator of what may happen in the economy six to 12 months down the road. Any general comments on Google's resiliency in an economic downturn having not lived through one yet as a company, but certainly having lived through a few yourself?

Eric: Well, of course we lived through 2001, 2002 as a private company.

Mary: That's not really, that was fine.

Eric: Well, I mean it was a terrible situation globally, terrible in the United States, and I was, and of course the company didn't have any cash at the time, a small private company, I was terrified that somehow the company would, people would stop

using our product. And the curious thing was that people accelerated their spending on Google and decreased their spending on everything else. And the reason was because it was more measurable. So I can't say for sure of course, but we don't, we seem to be more sensitive to the transition from the rate at which people are transitioning from untargeted to targeted mechanisms, and less sensitive to the kind of question that you're describing. The company has many, many other ways in which they can insulate themselves from these things, as you know for example our European business is incredibly strong, extremely profitable, et cetera, and we're expanding dramatically and quickly in Asia. So if there were a global downturn, it may very well be that the principal that we saw in 2001, 2002 would recur, maybe it would be a new thing, we don't really know.

Mary: Except I don't think you'll be low on cash.

Eric: That's correct.

Mary: Come on, this is a tough crowd. But I have two more questions about other industries and then turn it over to other questions, or I'll keep going. And I'm going to read these so I get them right. In one to three years do you think there's a better than 50% chance we'll see a resurgence in TV advertising as broadcasters and cable operators get smarter about working with internet marketing, especially in local markets?

Eric: If you go back to the earlier example I was using about television, and I was saying the television set that's showing the wrong kind of ads. There is a solution to this, which is many people have IP addressable set top boxes, whether they're from the cable company or satellite based. And the new generation of such boxes are highly addressable. With that addressability, it should be possible with television to show much more targeted ads, and we can debate the mechanisms for targeting. So we, Google, have certainly looked at this. We have a whole bunch of partners and we're exploring that area. So, the answer is yes to your question, but only because the ads are targeted.

Mary: Yep, got you. Similar question, in one to three years do you think there's a better than 50% chance that we see a resurgence in revenue from leading video content providers that aggressively pursue the internet as a distribution channel? You've spent time with these folks over the last six months, they are clearly dealing with some channel challenges. As you know from the history of technology, it's always hard to make the bet you can make it up on volume. But this is one of these opportunities in front of us, you've gotten probably a little closer to looking at their challenges and opportunities. Do you think that is an opportunity for them from a holistic level two to three to four years down the road?

Eric: Well, every one of the large media companies either has to or already has an internet strategy. And they face some daunting issues. They face issues of piracy,

they face issues of monetization, and they also face dissatisfaction from their existing licensees, plus they have this enormous rights rats nest, sorry about the alliteration, where they have a very complicated set of rights which don't necessarily allow them to do the things that they would like to do. So it is the sum of those issues that sort of I think slows down progress in that area. It should be the case that monetizable viewing habits on the internet should eventually catch up to where television for example is. And today there are a number of studies that indicate that the time spent, if you will, doing video and audio and so forth on the internet is monetized as a rate of a factor of five or a factor of ten less on a per minute basis. So it looks like with new tools and technology as the media companies shift, we can replace that revenue. As to whether it will grow, we'll see how big those markets are.

Mary: Yeah. Okay. Any questions from, go ahead, fire away.

Q: One question here on Apple. Eric, you are on the board of Apple and they have a closed model of video delivery and you have an open model video delivery. And how do you manage the conflict of being on the board and understanding their strategy, which is yours being quite different? And the next question is about the mobile device, the iPhone, there have been rumors that Google might also introduce an internet communicator, which also is another conflict _____.

Eric: It's important to understand the proper role of a board member. And there are, reading the press, it seems like everybody is confused about this. And a board represents shareholders to make sure that proper governance and so forth and so on. The management team runs the company. So I'll let Apple speak for why their strategy makes sense. I think Apple's success in the last few years shows what an incredible management team and what a clear strategy they have. I don't want to comment on rumors, I will tell you that Google and Apple are doing more and more things together through the normal course of communications. Apple remains one of the great innovators in the areas that you all know, and we hope Google is the same. We have similar goals and similar competitors.

Q: Yeah, good afternoon. Two questions, one non-search based and one search based. Could you put together a reasonable approximation of what non-click revenues will be in '07? And at the end of the year, if you choose not to break that out, why not? And then the second question in terms of search, you in the last quarter said that your query growth I believe was up 61% on a year-over-year basis. In your K it was up 65% for the entire year, so I was very surprised at the slight attenuation as the year progressed in that it's extremely healthy. Could you kind of go behind why it's so sustainable and robust as it is all year?

Eric: With respect, first place, two separate questions. With respect to non-search based revenue, we don't break those things out. They're not material yet from the financial sense of materiality. And we're still exploring how to make them much

larger. The enterprise business has done very well for us with the search appliance. And if it were a standalone business it would be a huge success. Of course it's buried inside this huge advertising engine that is Google. The next really big one is actually an extension of Google Aps. And the reason is it's an extension of that enterprise business and we've had a series of announcements there. The other non-search businesses are too early to forecast. When they hit they're likely to move quickly, in which case we'll let you know. So I don't want to give you a precise number of 2007. With respect to query growth, Google's query growth has continued, as we said in the 10K and 10Q, to be very strong. And we attribute this to a number of factors. The first is a focus on international. Mary, who is one of the experts on the international world, has not actually asked any questions of an international focus. But the –

Mary: I already know everything, what can I say. Joking.

Eric: Well, maybe you covered it earlier. But it turns out that her team, right, actually has mapped all this out and you can sort of study it. It's very, very interesting. The quickest way to grow queries, and in fact advertising revenue and traffic, is simply take the current product and make it available outside of your current markets and deepen your market share in every country around the world. And that's been our number one focus. It turns out that even in developing countries where the monetization is small, there are so many people that the multiplication of the number of people who are doing queries times the low monetization equals a large number. So we're very, very focused on delivering services worldwide. The second is the expansion of our content, in particular of comprehensiveness, and we've also seen significant increases in search quality. So again, the media and everybody is always excited about this acquisition or this deal or so forth. The core business of Google, which is how we spend 70% of our time, because it's the 70% part of the business, continues to grow well because of those factors.

Mary: Any other questions? Just an international question while we're waiting or I'll keep going but I assume there will be some more questions. Any interesting observations about YouTube usage in developing countries?

Eric: It follows the same rules as everyone else. You remember, what I said was that everybody has something to say. And it's amazing to see in countries where people have never really had a voice how powerful their voice is. And one of the things that's really exciting about the next five to ten years is what will happen when the next billion people come online? And they're going to come online because of inexpensive mobile phones, which very wonderful companies are pushing very hard. They're going to come online because they're going to want to have the same kind of information that we all have the benefit of. And they're going to come online because they can get it in their own language. So the general adoption rate is a function of access. There's a basic level that you have to have

some electric power and you have to have a computer or some kind of a mobile device, and people will do it, and their voices will be found.

Mary: We had a little bit of an epiphany about six months ago when we realized that there will be more mobile phones in the next six months with recording devices or cameras than there are internet users today. Any indication of how relevant that will be for video uploads on the internet?

Eric: Well, we of course view this as a great search problem. We don't know what people are going to do with these phones. It's worth noting that in the United States the internet in the 1990s when it came out gave a voice to people who had never been heard before. That voice has had it's problems, right. So for example, everyone is up in line with or excited about criticizing various forms of polarizing bloggers. But they existed ten years ago, but they didn't have a voice. And now they have a voice. So you should expect the same phenomena occur globally. And this is a good thing. It's ultimately about user empowerment. It also puts a burden on citizens, right, of any country to try to sort out are they being manipulated, are they being disinformed. There's another phenomena we worry about, which is essentially think of it as political spin applied to nonpolitical worlds. You'll see for example people say well, my website got 10,000 hits or whatever. What happens if 9,999 of those were paid for by somebody? So it's possible that in this new world that new forces will emerge that will try to shift opinion by various forms of marketing disinformation. We don't really know.

Mary: Any other questions? Fire away.

Q: Just a question about broadband rollouts. I guess Korea and Japan and most of the _____ home customers today primarily because it's been centrally directed, the rollouts. As far as the U.S. and Europe it continues to be delayed and you see a lot of articles about it, but not much new subscribers really. So what are you doing, what do you feel like can be done to push the FCC to be more forceful with these monopolies to rollout fiber more rapidly?

Eric: Well, the American system, as you know, is different from in those countries. We have always pushed for more broadband access. And I think the countries that you named see broadband leadership as competitively leadership for their country. It would be great if the United States saw this as a threat and invested the money and the subsidies and so forth to essentially close that last mile. It's harder in the United States because of distances, but it's also good in the United States because we have so much great technology. Many people have argued that there's some sort of internet bandwidth shortage, and the only internet bandwidth shortage that exists is the last mile, the last kilometer, or whatever. There's so much dark fiber put in the ground over the last five or ten years, especially during the bubble and the bust, that as long as you can get to one of them you're fine, and indeed those prices continue to fall very dramatically. Google is a large consumer and owner of

a whole bunch of that for the way our data centers work, so we know this to be true. We, Google, have been sponsoring a number of things, including various forms of free Wi-Fi and so forth, to try to raise awareness of this. Ultimately, because of the scale involved, it will require some form of government collaboration with the key leading broadband providers in each of the countries because they're going to need some help coming up with the financials and the necessary sort of wherewithal to spend all of that money. We don't ask private citizens to pay for the highway upfront, they pay for it in the form of taxes. So there must be some way where we can make an analogy to the interstate system and show how nationally competitive it is. People may not remember that in the 1950s the U.S. interstate system was built under the rubric of nuclear war, right, as a national defense issue. And it may get to the point where we will feel that a national broadband policy is central to the competitiveness of the United States, and I would certainly encourage that.

Mary: Any other questions? Go ahead.

Q: Could you comment on what your thoughts are around Yahoo!'s Panama? And how, to the extent that that improves monetization for Yahoo! and looking at competition in a different way, and competition for affiliate deals which is obviously an important part of both of your strategies. And secondly, speaking of affiliate deals, maybe you can give us some color around monetization around MySpace deal that you guys have.

Eric: The MySpace deal is doing extremely well. MySpace traffic is doing very, very well, and our revenue and monetization is correlated with traffic, as I was describing earlier. So again, looking at the likely age of the audience, you all may not be huge MySpace users every day, and I can assure you that MySpace is taking off and doing very, very well. With respect to Panama, Panama, as I understand it, is Yahoo!'s advertising product they've been rolling out. And as I said earlier, the fact that there is a new and interesting advertising system does not mean that it affects ours in a negative way, it may in fact be positive. So we've not seen an impact of that so far, you never know of course. And the reason is that the advertising systems, people don't advertise on just one, they will put their money in multiple places. With respect to affiliate deals, and so far we have been able to grow our monetization and profitability on affiliate deals faster than any of the competitors, which is why we've been able to keep them, we don't see any reason to believe that that's going to change.

Mary: One more question.

Q: You mentioned earlier about capacity growth at data centers and servers and such. Can you talk about what that's doing for power costs? And do you have any perspective on the electric utility grid and what type of growth needs to happen there in order to satisfy yourselves and others?

Eric: We of course want green power as well as inexpensive power. And so we have teams looking around for sort of hydroelectric damns that have excess capacity. And there's a very complicated set of criteria about power usage, the amount of power we actually use, and local utility rates. It's been widely reported that we are in discussions with a number of sites around the United States, and we also have them globally as well. So those negotiations continue. We will be able to get enough power by following the rules and by doing the kinds of things that I just described for the foreseeable future. There is enough power. Again, we would prefer, and in fact willing to pay a moderate premium in order to actually have it be the right kind of power with the right kind of reliability. And we're negotiating that. But the fact of the matter is there is enough power available to us. The broader power issue is really a question of what are the best sources for energy and so forth, which is an issue we can discuss another time.

Mary: Anything we've missed that you'd like to address, Eric?

Eric: There was a question.

Mary: One more question and then I'll ask a final question and then we need to close.

Q: Can you comment on your thoughts on changes in the competitive landscape at Microsoft just to bite the bullet and essentially buy Yahoo! for the extra footprint to compete with you?

Eric: There's just no way I can answer your question. I can't think of a legal way to answer that question. If the market has gotten to the point where it's going to consolidate in a way like that, let me make up an answer that's kind of near your question, then it would be early for the market to consolidate. There are markets in technology, Oracle is an example of a company that's busy consolidating for growth and doing I think a very good job of it as best I can tell. I don't think we're at that stage in the market. There are so many new places where monetization can occur, so many new initiatives, so many new places where targeted advertising, information, et cetera, can be done. But it does not strike me as the right time to be consolidating the whole market and becoming normal. This is a market that's still explosive in innovation. It's still a market where new things can be invented this year that we'll be talking about next year as though we'd had them for years. We're still in the early part of the S curve of the innovation cycle. And I think that's going to continue for some years. To answer your –

Mary: Yeah, there was one more, back, far back. We do need to –

Q: Yes, I was very interested by your comment about the relationship between the value of advertising and the quality of the consumer experience as it pertains to

the Checkout product. What are your thoughts, if you can share them, around trust and safety issues in ecommerce as it pertains to Checkout?

Eric: Well, all of the companies that I've named have big initiatives around trust and safety. eBay is one of the best examples in the positive sense of having, all of them have pioneered, Amazon, et cetera. So we have similar policies with the branding, consumer fraud, and so forth and so on. So far it's not been an issue. From the standpoint of a consumer, consumers trust Google, consumers have been willing to give us their personal information and then we store it, and with respect to Checkout, one of the boxes that you can establish is that we do not give all that information to the consumer. So, excuse me, to the store. And so this is important because it means that the consumer using Checkout may believe, and indeed is true, that it's a safer transaction. And we think that that's a competitive benefit that we have.

Mary: Anything we missed, Eric, you'd like to address?

Eric: I think that the most important thing that I may or may not have talked about here very well is how much bigger this opportunity is than we think. The reason I went through the Moore's Law example and I used examples is that people don't sit down on a piece of paper and they don't plot it out. They don't see how large these markets are. This is a mistake I make all the time. And I've committed myself this year to not make it again. I'm sitting there plotting it out over a two or three year period, how big of this market? How much of this particular market could Google get? How much of this market could Google get? How much could a competitor get? And I would encourage you when you're doing your analysis, which I know is very rigorous, take a longer view and understand the underlying change and the rate at which these things are being adopted, and then try to figure out that that's likely where all the money is going to get made.

Mary: That's a good way to end. Thank you, Eric, appreciate it.

Eric: Thank you very much.

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