Walt: …come to D before and participated in the Computer Bowl that some of you know we had, but has never really sat down for an interview. And we also invited Chad Hurley and Steve Chen who you already saw and then very late in the process after the billion dollar lawsuit was filed, Viacom suggested that maybe we would want to have Philippe Dauman and we said, "Well, yeah that's a good idea, but the only slot we have is right between the YouTube guys and the CEO of Google. Do you really want that slot, because that's it." And they said "Yes," and so I'm now going to bring out the other bookend of the Google assault on Viacom, Eric Schmidt. Eric.

Eric: Hi Walt. Thank you.

Walt: Thanks for coming.

Eric: I've never been introduced as a bookend.

Walt: Bookend, well, a flanker a pincer or something. I don't know what the right term would be. And I suppose we should start off with the Viacom lawsuit. I'm sure your lawyers have told you you're not supposed to talk much about it.

Eric: Oh, I can talk about it lots.

Walt: Good, great. We'll talk about it lots. I mean doesn't he have a point? He owns and has paid a lot of money for the production of a bunch of this content. We're apparently violating his copyright in the eyes of some of his lawyers this morning and but he owns it, right? So doesn't he have a right to decide who can distribute it and get paid for distributing it and so forth?

Eric: Well, the Viacom lawsuit was probably just a mistake.

Walt: Probably just a mistake.

Eric: Yeah, because the underlying dispute is about the Digital Millennium Copyright Act and whether there is a shared responsibility around takedown or not. We read the law, it's pretty clear that there's a safe haven for sites on the internet and others that host content that is incorrectly or legally uploaded, as long as they take it down promptly and indeed we do that. We're busy building tools that will automate as much of that process as we possibly can, because it's crazy to have people doing this stuff manually. And I think they just made a mistake.

Walt: What should they have done?

Eric: They should have waited for the tools.

Walt: Well, why should they wait and why should they believe that you're going to come up with the tools?

Eric: Because we have lots of other people using them.

Walt: Well, but why shouldn't he say even one day of using my material, and we talked to you before about this, even one day is an outrage because we paid for this? I mean do you believe in intellectual property and copyright?

Eric: Absolutely and there are lawyers who have been to the school that says that intellectual property is a full property right over which you have absolute control. There's another set of lawyers who apparently have all been to the Supreme Court and said that it is, in fact, a shared responsibility. And the important principle about copyright here is that Google actually operates under the DMCA for lots of our properties. We happened to be sued by Viacom over this particular issue, which is largely a business negotiation I think. And had they simply waited, the tools that are in development now would have addressed most of their complaints I think.

Walt: But why should the onus be on them to – I know I'm rephrasing my question, but why should the onus be on them to wait for you, a bunch of smart engineers to come up with some tools? Why shouldn't the onus be on you to say, "Until the tools come out, we're not going to…"

Eric: Because we follow the law. The law does not require us to build tools. We're building the tools to make their lives easier because we think it's good for everybody. The ultimate outcome of copyright is going to be a complex mix of user authentication, producer authentication and user choice. And the more we can automate the tools the better. From a legal perceptive, which is what you were asking, we met the terms of the law a year ago, we met it six months ago, we meet it today.

Walt: Let me turn it around a little because when Chad and Steve were out here, there was a question – Gary Shapiro from the Consumer Electronics Association asked – which struck me as very interesting – which was, you have this community around YouTube, you have other communities and other parts of your product portfolio and one approach to this is a technological approach, which you're talking about with tools. There are let's have a lawsuit with each individual instance, whether it's Google or other companies around the web and other old media companies. Let's have a separate business negotiation, a better everything. But another approach is to say, we live in a country where the copyright laws, including the Digital and Millennium Copyright Act, which is supposed to be the

modern one, are entirely written from the point of view of the copyright holders. Yes, you have a Safe Harbor, because either you or probably not Google, actually, at the time, but some companies like you, primarily I think AOL, hired a bunch of lawyers and got a loophole. You got a get-out-of-jail free card somewhere in the bowels of that law. But these laws are written entirely from the point of view of the copyright holders. They all say nothing can be copied. There's nothing in them that recognizes the rights of consumers. I'm not even talking about Google now, but consumers. If you have a community at YouTube, why don't you mobilize it to get political change, rather than just be satisfied with either defeating lawsuits or cutting deals?

Eric: There's a line of advocacy that we probably should not cross as Google. Google tries very hard to be an independent and unaffiliated arbiter of what the best search results are. And there's always this line that we have to be very careful about. My personal view my be different from the law, but the fact of the matter is that in the United States we're covered about the DMCA. The various people who have suggested the DMCA be changed, have various vested interests. As you know, DMCA was signed in 1996 under heavy lobbying from the Hollywood and other things. But what's interesting is it's being turned around from their perspective in a negative way, but is nevertheless, from my perspective, it's a pragmatic issue. My own view is that the user content explosion is so profound and so obviously a big phenomenon, that it will eventually cause the world to change. It's also worth noting that the DMCA is US only and the laws differ by country and it's a real problem if you're trying to run a global site as we are, because the law is different and you have to deal with these – obviously have to – subject to all the different…

Walt: Yeah, but just to continue on this theme for a minute. I don't think it's in the 10 Commandments or the Constitution that the terms of the DMCA are not etched in there. It's a law, it could be changed, it could be amended…

Eric: By the Congress, not…

Walt: By the Congress. I also, the last time I checked Google, actually had a right and the people at Google, or the community around YouTube, all have a right to express their opinions to Congress.

Eric: Absolutely.

Walt: And I'm not sitting here telling you what your policy should be on this, but I would say, and lots of other people would say that there's some sort of imbalance in these copyright laws.

Eric: One of the great things…

Walt: That is not to say, by the way, that isn't such thing as copyright or there isn't such thing as IP.

Eric: What's great about it is that's your view and a lot of people agree with you. And the YouTube communities form so naturally around these things that it's a reasonable expectation that such a community will ultimately drive that change. What's important from a Google perspective is that we enable that, not that we particularly endorse one political view or the other. And that's where we draw the line, because we don't do content.

Walt: You don't do content, but you enable content.

Eric: We absolutely enable content, especially for end-users, we're very end-user focused.

Walt: I mean actually Bill Gates and Steve Jobs were saying, "We're just platforms enabling content," in their session last night, that they're not real entertainment or content companies. So in that sense you're aligning yourself with their point of view on that? On what the right role for the company is in this?

Eric: Well, I can't speak for them. From a Google perspective, Google is run around end-users, it's all around end-user, testing end-user happiness, essentially, and all of the innovation is really about helping them understand information better, providing more valuable services on various kinds of devices. And there is a huge, huge, essentially – in traditional terms – platform shift from a model which is sort of a hard-wired platform to this much more diverse sort of more porous platform model that is the web. And it's very exciting. And it's how these platforms and services will evolve. It's becoming more confusing because it's becoming more embedded and more powerful. There's no single answer to that any more.

Walt: So Steve Ballmer was talking about – here yesterday and, of course, he was talking about how they're way behind you in search and in advertising. We know they just spent $6 billion to try to buy some expertise on the advertising side, in particular. And tried to buy DoubleClick before you did and they're – he got very close to my face and in a very loud voice said, "We're determined…," what did he say? "We're determined and we're patient and we're going to make big strides here." But one of the things he said is that the presentation of search results, the user interface for presenting the results has been relatively stagnant. Would you agree with that? Is there a need for – I mean for all of your phenomenal success, is there a need to make some strides in the way that you present the results?

Eric: Well, this past week we announced something which we call Universal Search, which is the blending algorithmically of results from video and audio and books and so forth and so on, news, which is a big component of it, directly in the search results. So far the feedback is that people love it. We, of course, had tested it before we rolled it out, and it looks like we'll roll it out pretty soon worldwide. So that's an example where a relatively simple presentation has been augmented. I don't think we're going to go very far from the single search box. One of the things to know is that we are seeing tremendous success with personalization of Google. It's called the iGoogle page and many, many, many millions of people are now personalizing their search experience. From my perspective this was a surprise because I figured people would like that very simple box, but in fact, if you think about it, people know what they care the most about and so they personalize their page. And these new web gadgets, as they're called, allow you to have a highly personalized experience. So what's happening you have sort of the corpus of Google available to these gadgets. The gadgets themselves can interact with each other and then you can have a personalized platform experience. It's a very, very powerful model and it's likely to be one of the major ways in which people consume information. The other thing to note about iGoogle is that personal experience also extends to non-PC, non-Mac platforms, anything that can handle a reasonably sophisticated browser. All the new generation of mobile phones and new devices should be able to run them. And that's pretty exciting.

Walt: It is. It's similar to some other things that you can do on the web, Net 5 is – even MyYahoo! to some extent. And on the desktop with the dashboard on the Mac and the sidebar on Vista. But still, when you type in a search, even from an iGoogle page in that box, it looks a lot like it looked three years ago. Maybe that's good, maybe that's fine, but in the world you live in, three years is a really long time for something to still look pretty the much the same.

Eric: But let me disagree a little bit, because although the look may be the same, the amount of content and the types of content are vastly larger with all the new content that's available on Google, the index is infinitely larger. There's so many _____...

Walt: Right, I'm talking about the UI and the presentation.

Eric: I understand. The other thing that we did is at the very top left-hand corner of most Google pages you now get a menu of services, essentially online applications of one kind or another, so that you can not only have a personalized page, but you can also then go into the depth of the data services that are offered by Google, again, worldwide.

Walt: Why don't you have a better sense of the preview of the pages that you bring up?
            I know I'm being a little granular here, but some competitors, Ask.com is one,
            have a little icon and if I mouse over it, I can see what that page would look like
            before I commit to clicking, the going over there. Is that…

Eric: We have looked at that, it hasn't been a big – it has not tested particularly strongly
            one way or the other and there are some latency issues with such previewing.

Walt: So that's not something you're interested in?

Eric: Well, we're always interested in – I mean we're always experimenting, so if you
            look, for example, in Korea, we just announced a very different browsing
            interface, which actually has pop-ups as you browse along the fundamental
            homepage. So we're experimenting the difference of – the user interface stuff is
            culturally specific, country specific, language specific and you'll see more of that.

Walt: Also here at this year's D we had a demonstration of Mahalo, Jason Calacanis'
            new product, which is a kind of back-to-the-future thing and you probably know
            what it is, where he has human editors. And his contention is that for a certain
            percentage of particular kinds of searches, your algorithms aren't very satisfying
            to people. We showed a little video of people saying, "I can't figure this out or
            I'm not getting what I want." And they were areas like, "I want a particular hotel
            in a particular city." There is this enormous search engine optimization industry,
            which is essentially gets up in the morning every day and tries to game your
            system and it isn't always good for end-users. And in some categories, I can tell
            you just as a user, I think he's right. I'm not saying his solution is the right
            solution, but I think he's right that there's an issue. It does frustrate me, at least,
            when I go to look for a hotel – maybe this is just me, but the things that I want
            most are the website of that hotel and some sort of review that I could trust. But
            instead, it's just pages, it seems to me too often, of brokers, middlemen
            companies that claim to be able to get me a room for a certain price, but I don't
            even know which hotel I want to stay at. Is there a solution to this? Is Jason's
            solution the right solution to go back to the Yahoo! directory approach, put at
            least for some searches, put some human editors in? Or can you do it with
            changing your algorithms?

Eric: We believe we can do it with changing the algorithms. The problem with these
            human approaches is you can always pick a category and a very talented human
            editor can always do a better job. The problem, of course, is that it doesn't scale.
            It doesn't scale to a hundred languages worldwide and the billions of pieces of
            information that people care about. There are new artificial intelligence
            techniques that can use both the personal information that you have, as well as all
            of the other information and signals that you have that can produce a pretty good

approximation of what a human editor can do. The thing that you're referring to we call index spam. People who are paying money to try to generate false results and/or overwhelm the user.

Walt: Not paying money to you, but…

Eric: No, they're paying money to some other people. Classic example is called the link farm where people take 5,000 computers and they cross link each other. But we, of course, can detect link farms and our software is very good at that. But there are other attacks that people try. And because it's in their financial interests. And I think one of the things that's interesting about the web is that web is now so important that there's a certain amount of misinformation that's commercial or manipulative in nature, or what you call biz information or some term where it's sort of boosted, if you will, by financial interests. And people have to learn that sometimes the marketing has been infused with the result and we try to detect that as much as we can. The particular issue with reviews is one that I, for example, notice all the time and we have better approaches that are in development for that.

Walt: You do? Because I think it is an issue, whatever we think about – whether Jason has a business or someone else has a business. Let's talk about advertising for a minute. You have this phenomenally successful contextual advertising business. I will tell you just as a consumer that I appreciate that you haven't done sort of garish flashing ads. The ads are text, they're clearly demarcated from the algorithmic results, which some other search engines didn't do. I mean I think you've done a lot of things there correctly. At D1, I don't know if you were here, but I remember that…

Eric: I was.

Walt: …Sergey and – I think it was Sergey made the point that those ads were great because he was able to find a green laser there and Larry said that he was able to find some kind of metal shed for his yard or something. I don't know. Those were their examples. But, you know...

Eric: I'm sure that's true, given the two.

Walt: It's been a very good business. You obviously have just bought a company that does display ads. So are we going to see your – is this more of a strategic thing for you to be in the business of serving and placing display ads all around the web or is this a portent of your changing your pages to have a lot of display ads on them?

Eric: Well, we're certainly not going to do the latter. A little bit of background for everybody is that we have a different view about advertising. We think that the

ads themselves have value. There are lots of examples where the value of ads shows up in our systems. We show fewer ads now because we can target them better. Those ads themselves have become more valuable, therefore our revenue has grown. So we're showing fewer ads per page now than we ever have. So more targeted, more personalized ads are the core part of how our business model works. Of course we did that very successfully with text ads. We believe that the same technology and approach can be applied to what are traditionally known as display ads and other kinds of ads, radio ads, television ads…

Walt: To make them actual – texturally relevant.

Eric: To make them more relevant in the scene. And every time we have done that, we have seen a significant improvement in user satisfaction, advertiser satisfaction and frankly the value of the ads goes up. So it's a good business. It's different from traditional advertising models where if you show more ads you make more revenue. In our case, if we show fewer, more targeted ads we literally make more revenue because we run an auction. And the auction, as you know, is the second price dynamic auction. The second price dynamic auction produces a higher price, therefore all is good. And we know the ads work because there is a process where the value of the ads and the ultimate cost per acquisition, so-called CPA, is solved through ad and display tracking tools that are in development at Google. So the sum of all of that means that as we broaden our mission from an advertising perspective, we really want to solve the advertising problem in general. In other words, we want to bring engineering to advertising as best we can.

Walt: So you're not just buying DoubleClick to go on with what they've been doing – I'm not trying to get you to criticize what they've been doing – but you want to actually use that as a vehicle to apply some of what you've done in the search ads to this category.

Eric: That is correct. If you look at what advertisers want, they want measurability, efficiency, reliability – that want the system to work and these are big systems, they work at scale. DoubleClick's customers, as best we can tell, given the ability we can see into them in the current – because we haven't closed yet -- are mission critical, large corporations that use them every day, all the time. It's a core component of their business. If we can make that business, again, more measurable, stronger, more targetable. It's good for the advertiser, it's obviously good for the publisher of the information. We can also using our tools show fewer, better ads, which is good for the end-user, which is the ultimate goal. That's…

Walt: Why do you keep saying end-user?

Eric: Because that's…

Walt: This is not a corporate IT product, Google's products for the most part. You have direct users, they're not end-users.

Eric: Thank you for – direct users. It's important to distinguish because the company is run based on the testing and sampling of what you call direct users rather than some other strategic goal. So we will, for example, trade off revenue or other things in favor of an end-user benefit. There've been numerous cases where some very smart set of product managers have come in with some very clever revenue enhancing idea, which when tested does not improve end-user satisfaction – we don't do it.

Walt: So that's the don't be evil, that's the do the right thing?

Eric: Don't be evil is both a slogan, but it's also a way of getting people to think before they act. So one way to think about don't be evil – and when I started in the company, which is a few years ago, I thought this was a joke. And so I'm sitting around the table – and it's a small company and we're in the one conference room. And there's some conversation about this revenue issue and one of the engineers whose name was Ron, slams his fist on the table and says, "That's evil." And I thought, wow. So then there was this big debate as to whether it's evil and it turns out he was right. And we did not do that particular thing. And my point here is it's a way – it's an internal way for people to understand how they should be making choices. There's no – since there's no book on what's evil and what's not, it forces the conversation.

Walt: The collected speech of George W. Bush have a lot about evil and good in them, so…Let's talk about evil for a minute though because there's an increasing point of view that you are accumulating so much power. At first – a couple years ago it was so much power on the web and now it's sort of so much power in the advertising market in particular, that you could be evil, whether you say you are or not. Is it a good thing for the advertising market, is it a good thing for publishers and content owners for you to have like 80% of the power to serve and place ads?

Eric: Well, our model is based on real performance and I understand the concern because I've obviously heard it and read it. Ultimately we're different from some of the previous incarnations of large companies, large monopoly power that people have been alleging, because we are one click away from losing that end-user. Advertisers, by the way, can choose to advertise on many, many sites, not just us. We have a whole bunch of commitments that we've made to our constituencies. In particular we've made a commitment that we won't trap user

data, that if you, for example, become dissatisfied with Google services, we will make it easy for you to switch to another service. Now there's two reasons for that. One is it's clearly for you as a user, but it's also important because it serves as a meter, if you will, or a discipline on the company and on the teams in the company because it forces them to compete on a product-by-product or an integration basis. They can't just say, "Hey, we've got them trapped." It forces excellence.

Walt: But Eric, you're an incredibly smart guy. I mean you obviously know that – I'm not talking about whether somebody would switch from iGoogle to MyYahoo! or something. I'm talking about – consumers don't know who's serving these ads on these different sites. They're not even on a Google site, they're on some other site and DoubleClick is the company that serves the ads. Now it's you, it's Google. A page might have a bunch of Google AdSense, AdWord, whatever you call it ads…

Eric: AdSense for Content.

Walt: Okay. And then banner ads and all of a sudden, the difference between whenever you closed this deal and before is, you're controlling all of it on that guy's page, on that website. Is that good? Is that a healthy thing?

Eric: Well, it's – the easier answer to understand that the publisher of the content gets to make that decision. And they get to make the decision whether it's a good thing or not. So far they've been voting that it is, but every day they…

Walt: But they haven't had the chance to vote for a Google that controls both the display…

Eric: No, but as you…

Walt: …and the contextual.

Eric: But as you pointed out, there is a direct competitor with DoubleClick, which is aQuantive and you started our conversation by mentioning that acquisition. So indeed they do have a choice. And they can decide to mix and match. There's no particular reason why you have to choose one versus the other. Each one of our products has to stand on its own.

Walt: Talk to me about how you evaluate Microsoft as a competitor? In other words, you know what business you're in and you know more than you're probably willing to say here about what businesses you want to get into. You know your strengths and you know your weaknesses and you've been competing with them

for a long time in different companies and incarnations. Steve Ballmer said that they've had a couple of traditional business models and lines of business desktop computing, obviously, enterprise products and they now have two new ones, one of which is advertising and one of which is consumer electronics kind of products, the Zoon and so forth, the Xbox. They actually demoed another hardware product here. But he put advertising as one of their core businesses, essentially saying – obviously it's not as big and they're not as successful at it, but that it's on a plane with Windows and Office. Do you worry about that? 78,000 people, they have a lot of money.

Eric: Well, I think you always worry about a company that has that percentage of the platform business in terms of Windows and that's been true for many years, certainly in my professional career. Advertising is different from the other businesses. If I -- for example, one of the things that people miss about advertising is it's not a zero sum game. If a new entrant enters the market, it just creates more choices, more opportunities. Because our auction clears at the market value for the advertiser, they're not going to somehow reduce the amount of money that they're giving us. They may augment their money, they may augment their spending and the competition is, in fact, good. It creates more choices for end-users, it creates more choices for advertisers. As you pointed out earlier, it creates more choices for publishers. So I think the competition is very good. The advertising business is harder than it looks like. Again, when I started at Google I thought, oh, it's sort of a toy system, it's very straightforward, you take these keywords and so forth and so on. The computer science and the complexity of running these systems, especially when they're under attacks like the ones that you mentioned about commercial spam, and so forth, are very, very sophisticated. Google has some of the top computer scientists in the world and some of the top – some of the largest data centers and super computers and so forth that work on this. So again, the challenge is high, but the opportunity is worth it. The current structure of the market is you have Google's network and Yahoo!'s network, then you have Microsoft trying to enter, as they have for awhile.

Walt: So talking about Yahoo! in a similar way, as a competitor. My partner, Kara Swisher, wrote a piece recently suggested that maybe they'd be better off thinking themselves as a media company and not being in this advertising and technology business. Would that be your advice or how do you look at their whole situation?

Eric: I don't think it's appropriate for me to give Yahoo! advice. I'm not there. They – every company faces its own challenges in a different way. Yahoo! is a combination of both very interesting and very successful content and a technology base. And many people have suggested that those two should be separated. From our perspective, Google is a technology company, a product company, an enabler

of these services. We're not in the content business and we're very proud of the quality of our search and advertising and all the new applications and the new web applications that are getting developed. And that's our focus.

Walt: There's been a lot of rumors over the last few months on the web that you are getting into the cell phone business in some way, shape or form, some kind of software and another – people say this is going to be an actual Google handset, maybe a Google phone carrier. It is pretty clear you have some work going on, somehow somewhere around the cell phone business. Can you talk about what you're doing there?

Eric: We've been internally saying, mobile, mobile, mobile. And the simple reason is that everybody here in the room has a mobile phone with them. Everybody in the world has their mobile phone with them. When I travel, all I hear is the sound of mobile phones going off. And the mobile phones have historically been pretty weak from the standpoint of data connectivity and browser capability. The browsers have been crippled, the data networks have been slow. The data networks now with the 3G rollout are roughly one megabit or greater, that's sufficient for some pretty interesting applications. The browsers is a next-generation of browsers, epitomized by the iPhone. I'm on the Board of Apple, so I shouldn't – I should disclose that – but the iPhone is a good example of…

Walt: Oh, Steve was here waving it around and I've held it for 20 minutes, so I know what you're talking…

Eric: That's right, more than I've held it.

Walt: What? You're a Board member.

Eric: That's right, I'm waiting for mine. So in any case, this new generation of browsers is very, very powerful. So the combination of the 3G network and a browser really means that you, instead of saying mobile, mobile, mobile, I should be saying apps, apps, apps. And the model on phones is not going to be the simple Google search page with this long set of results and all the ads on the right and so forth and so on that everybody is used to, because the screens are so constrained. And as fast as the processes are getting and as good as the value life, and so forth, the screens are not going to be this big, they're going to be smaller and so they're going to have different kind of applications. The applications are going to be web enabled, they're going to use either Java or JavaScript and we, Google, are building a lot of those applications in conjunction with the operators. The operators have various complicated business models for distributing those apps and using them and a few of them are beginning to be successful. Our most successful partnership right now is with KDDI, which is a Google -- in the

number two in Japan – it's Google search, Google ads, very, very profitable. What's interesting about the ads in the mobile phone is that they are twice as profitable or more than the non-mobile phone ads, because these are more personal. So if you think about the phones, there are more camera phones now that are in phones than – sorry, more digital cameras that are in phones than digital cameras. Every phone either has a GPS or a pseudo-GPS, therefore every – and is also a computer. So therefore every – for purposes of argument, every end-user computer is a phone, a GPS and a camera with a modest size screen. The sum of all of that is a very interesting apps platform. And those apps are going to be doing all sorts of personal things. You have all the Google data repository behind it, all the personal information. The sum of that is a whole new platform play. So indeed, Google…

Walt: But are you going to just – I mean you – for you to write apps for mobile phones is not a new thing. I mean I have on my Treo Google Maps, people in this room have various – not just through their browser on their phone, but you've written a number of clients that do search and other things. And you have specially formatted Google pages that look better on these crummy cell phone browsers. So the idea that you're going to write a bunch of apps is mildly interesting, but that's not what all these web rumors are talking about you doing something more fundamental. Like I said, some say you're going to make a phone, some say you're going to make an entire platform for phones. That's a much bigger deal than just writing apps for the existing platforms.

Eric: In order to write those apps, there is also – there are also mid layers that have to be built, that actually, essentially federate the services, make them available. There's a lot of other technology that has to be built, so when I say apps, I don't mean just the simple app. I mean the infrastructure required to host and make that app personal, extensible, shareable and so forth. The new model of these phones is going to be person to person. It's going to be phone to phone. People are going to be sending information – videos, humor, data and so forth and so on. It's sort of SMS gone wild in a fundamental way. So from our perspective, we're building that software and we're doing it with partnership. We just announced a partnership with LG and with Samsung to do some similar apps. The most successful of the Google mobile phone app so far is Google Maps, but there are many more coming.

Walt: So this middle layer, this platform thing, Steve – I'm sure you've heard Steve talk about this because you're on his Board, Steve Jobs, not Steve Ballmer, I don't think you're on his Board yet – but talking about crippled software baby – I can't remember his terms, baby software and bad software on phones today. And he has, obviously, done a port of the Mac operating system to this iPhone. Is Google as a technology company, a software company, able to step up and do what

Microsoft, for instance, does, which is to write a whole software environment, an operating system or something that could go on a whole bunch of kinds of phones? And then your apps and maybe other people's apps would run against that?

Eric: Without announcing new products and new API layers, let me describe that the model is not as simple as an operating system and a platform, which is sort of the traditional way we talk about this. It's really a set of services. This week, in fact, yesterday, Google had a Developer Day which is all focused on building the piece-part apps, the so-called gadgets and the infrastructure that are embeddable in this new platform. The most likely scenario from a Google perspective is to build some, if you will, inspirational platform apps, but primarily focus on getting third parties to do it, because that's where the innovation will come from.

Walt: Why don't we take some questions? Thank you very much.

Eric: Thank you.

Walt: Right here.

Q: Eric, you've talked – I wanted to ask about Google Gears(?). It seems like up until now Google has merely been something we use when we're connected. With Google Gears are you going more directly against traditional client software companies and will we be using Google when we don't have internet access more?

Eric: Well, as you know, Google Gears is an open source set of software that we've released essentially today, which allows you to have your internet experience when you're not connected to the internet and then when you reconnect, it does the necessary resyncing. It does it with a relatively straightforward database. It's one of the biggest requests that we get in our new Google apps model where people are – they want to depend on the web service, they want to be able to keep their personal information somewhere, but we all understand that we're all on airplanes or in places which have poor connectivity and it's a pretty uniform solution to that. So we'll see. The important thing about Google Gears is it's not targeted just at Google. We're trying to do it with a whole bunch of companies, to try to essentially create this new opportunity around platforms. When you – the term you used was go against the traditional client software companies. My not – to my knowledge, all of the existing client software companies are offering variance of web services to access client software, for precisely this reason, everyone's moving to the web.

Walt: Esther.

Q: Hi, thank you. Last year I asked about personalization – maybe not here, but somewhere – and it happened. The question now – it's an advertising thing, both what Google's own experiences and what you're seeing and what you expect DoubleClick will make happen. At one end there's a lot of click fraud and there are lots of arguments over how bad it is, whatever. People don't really care about click fraud, they pay – they care about paying for clicks that aren't valuable. And so that means a better way to do it may be to pay per action, whether it's purchasing history or whatever. It requires more tracking, but you're pretty good at that. So where do you see that going?

Eric: Today the majority of our revenue comes on a click basis, so people pay for the click. And the sophisticated advertisers have teams, that is groups that actually measure their conversion rates and essentially construct their own CPA. I was surprised to discover how proprietary they view that whole process. They don't want, for example, to turn it over to Google or to anyone else. They view it as sort of a key insight into their business. They know if they do this, the following can happen and so forth. So far the click fraud issue has not turned out to be a big one. We're always worried about it, we're always trying to protect it and so forth. But remember that the auction is self policing and if there were, for example, an infinite amount of click fraud, then eventually the conversion rate, the actual selling rate would decline and the advertiser would way, "Hey, I'm not getting my money out of this advertising, I'll move my money to some other solution or some other company or some other metagroup around advertising." The same technology argument should work pretty well for display ads.

Walt: Yes sir.

Q: Hi Eric. Tai Qwan(?) from TPG, the Embioed(?) Shop. I had a question around the domain industry, the domain parking, domain tasting and all the associated practices. What is Google's position on that entire industry?

Eric: We have a business that we acquired that does, in fact, do some domain hosting and ad serving for domains. We've been careful to try to evaluate that based on the end-user feedback, as opposed to just purely trying to load these things up with fake domains, because we don't want to be part of the problem, we want to be part of the solution. So our solution seems to have better conversion and tests better around essentially domain management. There are companies in the industry that are essentially – that they essentially take and they fool end-users. They claim they're one thing and they're really something else. We have software that can detect that pretty well, although there are some counter examples. And every few months we come up with yet another attack and then we eliminate it. So with respect to domain hosting, there's some legitimate players and there's

some that are essentially manipulative.

Q: Hi, Herbert Kim with Cadworks(?) in the UK and _____ Tiger class of 1989. It
           would be an understatement to say you guys have obviously had a pretty good run
           over the last six or seven years and you've obviously got a lot momentum,
           etcetera, etcetera. But given the dynamism of the technology and the media
           industries, inevitably, one would suspect dark clouds will arise and problems will
           come and competition, etcetera, etcetera. So I guess I'm wondering what you and
           your team are doing to build into the DNA of Google that will allow it to be so-
           called built to last when perhaps some of these harder times arrive.

Eric: Companies are motivated by culture and the culture is determined by the people,
           the leadership, the tone, the way people view themselves. We worked very hard to
           build something that would outlast me, outlast the current management, outlast
           everybody, because we think that the opportunity for building a different kind of
           company is correct. The company is run in a different way, the empowerment
           model is different and we've talked about it, so I don't need to repeat it for this
           audience. And those seem to be pretty much likely to survive any of the possible
           either competitive issues or maturation issues and I don't think those are going to
           change. The other thing to know about companies is that they do, in fact, have to
           change. Last night Steve Jobs, when you asked him what was the company like 10
           years ago, he said he cast away the past to move to the future. And I think that's a
           good message to all companies. We're always thinking about what's next, what is
           our great opportunity and not rest on our laurels. And we try to instill that as
           values in our company. There's a tremendous number of new people who are
           joining the company for whom this is day one in their Google experience and they
           will shape the culture going forward. And the great companies, and many of them
           represented by people who have been on the stage before me, have all been
           through those transitions. And I'm quite confident that we'll get through them too.

Walt: Thanks.

Q: Craig Foreman from EarthLink. And I should disclose we have a long history and
           flourishing nuance relationship with Google. Eric, I'd like to ask you a little bit,
           lest this audience go home with more paranoia – tell us a little bit about the
           experiences you've felt personally as you've worked on radio ads, the D-Mark(?)
           acquisition and some of the experimentation that Google's doing on non IT-based
           forms of media advertising. Should we be thinking that it may take longer and
           more costly in effort to see some of the techniques that Google has been so
           successful with emerge in other media types?

Eric: Hi Craig. Each of the advertising models is different and they work for a reason.
           Radio advertising is the obvious example. If we could get a unique identifier for

the radio that's in your car, we could certainly target it with higher quality ads, we'd show fewer ads, you would be happier, the advertiser would be happier and the programmer would be happier because they'd be using less bandwidth for the ad, which, of course, then allows them to do even more programming or whatever they want to do. Unfortunately the technology doesn't allow that. Each of the economic models has a different profitability model. So for example, radio is not as profitable, for example, today as text ads because it's not as well developed. We looked at the ad models and there's a number of people who've studied this and have indicated that, for example, radio as an advertising business is under monetized. It's relatively poorly distributed because of the number of advertisers and the reach that it has. So in the theory of trying to help people out by building stronger and more durable advertising businesses, we have a radio, we have a series of television trials people know about. We have the radio business that we acquired. We're doing one for print around newspapers where we essentially build a cross connect where we show the ads to them. All of these are more targetable than the previous versions, but not as targetable as the core business. And so it will take longer they'll probably not be as profitable initially as we develop these new markets. And we keep experimenting, we keep trying. I think it's fair to say that the ad models that we have, that we're all dealing with now, will all be changed. They will all morph into something more dynamic, more personal, more entertaining because that's how advertising sells.

Walt: Jan.

Q: Eric, you were talking earlier about culture. I think that – I mean Google when it started off was a fun place, lots of color, toys to play with, roller hockey and it was really sort of almost counter culture. You've suddenly gone very dry in corporate. What happened to Frugal? Why do we now have the Google Internet Product Search or whatever it's called? What happened to Frugal? I mean Frugal was a brilliant name. And don't go dweebing on us.

Eric: You've not met the dinosaur we just installed in our lobby and the space shuttle replica that we have and all the balls and so forth and so on. I don't agree that the company internally has abandoned it's, shall we say, colorful and bizarre roots. With respect to Frugal, it didn't test that well and we're replacing it with a much more integrated product search offering, which – and users tell us this is what they want. I happened to like Frugal as a fun name, but in fact, the integrated answer that we're developing is a better one.

Q: You can't call it Frugal dash the internet.search?

Eric: Every idea has been tried.

Walt: Yes.

Q: Hey Eric, it's Nina Litton. I was wondering when you were describing what you're working on with your phone friends and you were mentioning that you would do inspirational applications. Would it be a fair guess that what you're building is a middleware platform that's going to be in the server somewhere and what you're showing people on the new phones will be ideas that the open community can build off of and create more of?

Eric: Well, the term middleware is sort of a – the term middleware, as you know, is an IT term. It's better to think of it as a set of programmatic layers.

Q: Services, _____ that live in the cloud.

Eric: And believe it – you actually need them on both device – you be both on the client as well as on the server. The client needs to be able to authenticate, offer the services, to be able to talk and so forth and so on. The computational power of phones now enables that. So as part of what we're doing, such layers are being developed as part of building these interesting phone apps. It doesn't have a name and it's not some new platform strategy and it doesn't have a book that says you must do this or else and so forth and so on. The new developer model is different in that sense, that it's much more grab bag – take this, take this, take this from different vendors. It's much more porous. The other thing that's interesting about these new developer programs – because of course you have covered them for many years, as many people in the audience – is that they're much more viral and they're much community based. They're viral in the sense that they spread out rather than being purchased in a store or whatever, and they're community based because Walt shows it to me, I show it to you and then the rest of us talk about it.

Q: Cool, okay, thanks.

Walt: We can only do two more and these two were standing.

Q: Yes _____ Search…

Walt: I'm sorry. Yep.

Q: A few months ago a large company introduced a product similar to ours, which is fine. Shortly after that if you Googled our company name, you got our company name, was the first one that came up, but if you clicked on our company, you immediately went to the earphone site of the other manufacturer. We spent a fair amount of time on the phone and correspondence with Google and was told that there was nothing illegal and that that was – we could basically get into a bidding

war for our company name. Did we just not talk to the right people or is that actually your policy?

Walt: You're talking about the ad side of the page or the algorithmic search?

Q: The algorithmic search. We came up to the top in the search and you clicked there…

Eric: So again, there must be some miscommunication because there are two parts of Google, there's the algorithmic search and there's the ads. We do allow competitors to advertise on other people's trademarks. This is controversial, but we've allowed that for a long time. So it possible that someone is advertising in a way that's not to your liking on the ad side. We do not allow that and we police it very, very carefully around algorithmic search. So if, for example, your website comes up under a query for your product, it should absolutely take it to your website. There are situations where people have done something called interstitials where they'll actually superimpose the wrong website and we detect those now. So again, there must be some miscommunication on your specific case.

Q: I'm glad to hear that.

Eric: I'm sorry.

Q: I'll send you the correspondence.

Eric: Thank you.

Walt: Susan, last question.

Q: Hi, Susan Lyme(?). Could you talk a little bit about your experience in China and the enormous growth of Baidu and maybe what you've learned about cultural barriers in countries like China?

Eric: Well, you know, China is a challenge for many American companies and maybe all foreign companies. We are, as everybody in the room knows, we're subject to all of the appropriate Chinese laws and we don't – not necessarily wild about these laws, in fact, we don't like them at all. As a result, we delayed our entry into the market for a pretty long time. During that time, Baidu became more successful and of course, they're also subject to the same laws. When we decided to enter the market, we also decided to enter it in a somewhat different way. So for example, we, if information is omitted, we actually inform the end-user. We also don't keep any user-generated content. The sum of that is consistent with the principles that

Google has set out and after a long and complicated debate that everybody participated in, and we are comfortable that we made the right decision in doing that, so we'll accept the consequences. What's interesting is since we've entered and since in the last six months, our market share is growing and our traffic has grown very significantly. Which tells you that the Chinese end-user also wants more information, global information, and so forth, quickly under the current model. So I think the strategy seems to be working with a late entry.

Walt: Thank you very much, Eric.

Eric: Thank you very much Walt. Thank you all.

Walt: Good answers.

END