

From: Christian Cramer Redacted @google.com>
To: Ruth Porat Redacted @google.com>, Kristin Reinke Redacted @google.com>
Subject: Fwd: BC Deal Review: Agenda for Tuesday Sept 5th at 8:30 AM PST and Wednesday Sept 6th at 8:00 AM PST
Cc: Helen Tsao Redacted @google.com>, Steven Hahn Redacted @google.com>, Cristina Bita Redacted @google.com>, Benjamin Friedenson Redacted @google.com>, Yuki Sugawara Redacted @google.com>, Alistair Connal Redacted @google.com>, Michael Roszak Redacted @google.com>

*** Attorney Client Privileged and Confidential ***

Hi Ruth and Kristin,

The Android team is bringing the renewal of the Samsung mobile search revenue share deal to BC tomorrow Wednesday ([deal document](#), [supplemental deck](#)). Please see below key terms and Finance perspective.

Context

I think you are largely familiar with the recent deal negotiations with Samsung, also from the "Samsung Search Agreement Status" update that you received from Jamie on July 20 (see also copy of the note below my signature for your reference). I will still put some context here, please disregard if too much.

The previous Samsung revenue share deal expired ~2 years ago in 2015, and we have been extending that deal month-to-month since then as we negotiated a new deal. A deal was approved by BC in November 2015 ([deck](#) here) with an initial proposal of **Confidential** gross revenue share on installed base **Confidential** on new devices, and an additional **Confidential** on devices with carrier client IDs (and additional fallback options).

Since then, the deal team has been negotiating with Samsung with challenges in alignment first on the revenue share amount (Samsung felt that the options presented were not financially favorable enough), then on assistant and security updates, which are new considerations.

Samsung signed a new Mobile Application Distribution Agreement (MADA) earlier this year. MADA is a license for Android device manufacturers to pre-install some of Google's apps and APIs and ship these apps with their device. Samsung's MADA requires that:

- GSA app is preloaded
- The widget is preloaded on the Default Home Screen
- Google hotword ("Ok Google") is enabled to invoke Google Assistant
- Long press on home defaults to Google

Ex. No.
UPX0580

1:20-cv-03010-APM

Components of the Deal

Samsung gets:

- Ads Revenue share **Confidential** of gross revenues (**Confidential** of net revenue after deducting **Confidential** for expenses, aka **Confidential**) on both installed base and new devices. There will be a penalty of **Confidential** reduction (dependent on Device Model) to revenue share if Samsung does not meet the security and letter requirements outlined below. Since Samsung currently is behind on their security updates, they have agreed to an initial revenue share of **Confidential** of net, after deducting **Confidential** for expenses) which means Samsung will initially get an **Confidential** lower payout; the percentage will be increased to **Confidential** of gross revenue upon written confirmation from Samsung that the security requirements have been met, followed by confirmation from our security team.
- Transaction Revenue share: once exceeding a **Confidential** threshold (estimated in good faith), Google will pay partner **Confidential** and parties will discuss in good faith whether Transaction Revenues shall be subject to revenue share and, if so, at what terms.
- The team plans to sign the contract before the end of September with an effective date of July 1, 2017.

In exchange for revenue share, Samsung has agreed to the following:

- Search:
 - Google as default search engine with exclusivity
 - Samsung browser and keyboard cannot be enabled with Bixby (without this, enabling may lead to siphoning off of search queries to other providers)
- Assistant:
 - 3rd party assistant protections, e.g. 3rd party hotword cannot be enabled out of the box
 - Include 2 screens in the Setup Wizard for Google Assistant
 - Google set as only search backfill provider for Bixby; non-Q&A / search queries may be backfilled by other providers (e.g. Expedia for travel questions)
- Security & Letter Updates:
 - For flagships (S and Note series), monthly updates for **Confidential** years and quarterly in the **Confidential** year
 - For high volume devices (A and J series excluding J1), quarterly updates for **Confidential** years
- Other: Daydream will be supported in flagships, e.g. Note 8 and 9

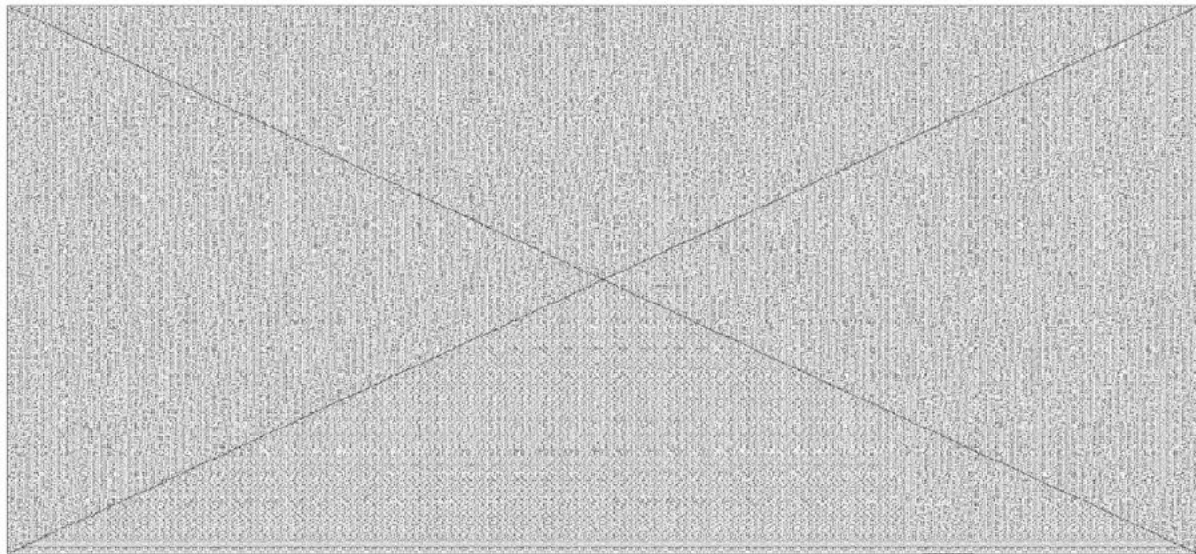
Deal Economics

The deal term is **Confidential** years. Over this time period, under the old deal, we would have paid **Confidential** in revenue share. With the new proposed deal, we anticipate an incremental payments of **Confidential** for a total of **Confidential** in revenue share. Estimated search revenues for this time period through Samsung is **Confidential**.

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Note: there is potential Confidential

Confidential reduction in payments while the installed base is at Confidential revenue share for Confidential months after deal signing

Finance Operations

- As long as Samsung is maintaining Security Compliance, we can leverage our existing processes for rev share deals
- However, the process to monitor Security Compliance and apply revenue share penalties, though consistent with the Standard RSA template, requires ongoing manual review from BD, Engineering, and Accounting to operationalize. This does come with the typical burden of manual processes and the associated risks for accuracy and consistency of tracking
- No system is able to support Transaction revenue share. There is ongoing work with Assistant teams to build a suitable tool - but the work will be done manually by Accounting at the outset.

Risks & Mitigations

- The proposed deal does not make us default on hardware buttons; Bixby will continue to be invoked on the hardware button and may divert queries from Google to Bixby
 - Google Assistant will be preloaded on the device via MADA (already signed) with long press on home defaulting to Google
- Bixby search boxes are allowed on Samsung devices (excluding S-browser and keyboard) and can fulfill vertical search
 - Browser and keyboard (e.g. Gboard) are reserved for Google
- Transaction Revenue cannot yet be accurately tracked with no system in place to calculate revenue share
 - First Confidential under scope of agreement will be estimated by Google in good faith, which gives us time to implement necessary tracking
- We set a precedent that Transaction Revenue (via Assistant or Search) will be shared with our partners before we have a firm understanding of the future economics of this business. Further, we agree to pay Confidential against the first Confidential of transaction revenue before opening negotiations on future economics:
 - This rate **Confidential** does align with the rate we expect pay on Search Advertising revenue
 - However, BD team Redacted@ has confirmed that he does not believe we are setting expectations of a specific revenue share amount on Transaction Revenue, and that the exact percentage (if any) we will pay on Transaction Revenues after the first Confidential remains subject to negotiation with Samsung

Recommendation

I **recommend approving this deal** as Samsung is a critical partner and it would be beneficial to maintain a commercial relationship with them. The proposed deal gives us protections for Google Assistant against 3rd party assistive services and preserves Google as the default search engine with exclusivity on Samsung devices.

Redacted - Privilege

Best,
Christian

Comparison of core deal dimensions relative to previous deal and standard RSA agreement

Topic	This deal	New Standard RSA for OEMs	Previous deal
Revenue	Confidential of Gross Confidential	Confidential of Gross Confidential	Confidential of Gross Confidential

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Share	<p>Confidential with penalties for non-compliance of Security Updates</p> <p>* Above Revenue Share also applies to Confidential</p> <p>Confidential</p>	<p>Confidential of Gross Confidential</p> <p>Confidential</p> <p>* Carriers for reference:</p> <p>Confidential of Gross Confidential</p> <p>Confidential</p>	Confidential
Search	<p>* Device Exclusivity (Home screen exclusivity in EU, TR, KR); Russia subject to agreement with Yandex as approved by FAS</p> <p>* Default on all Access Points</p> <p>* S-Browser in Hotseat but set to Google</p> <p>* -1 Screen is the Bixby Home</p>	<p>* Device Exclusivity (Home screen exclusivity in EU, TR, KR)</p> <p>* Default on all Access Points</p> <p>* Chrome in Hotseat and Default</p> <p>* -1 Screen reserved for Google (note Carriers may share -1 Screen with Google)</p>	<p>* Device Exclusivity (Home screen exclusivity in EU, TR, KR)</p> <p>* Default on all Access Points</p> <p>* S-Browser in Hotseat but set to Google</p>
Assistant provisions	<p>* No 3rd party assistants on DHA and -1 screen ... with active hotword out of the box</p> <p>... with HW buttons or gestures enabled out of the box</p> <p>* Include 2 screens in the Setup Wizard for Google Assistant</p> <p>* Google set as only search backfill provider for Bixby; non-Q&A / search queries may be backfilled by other providers (e.g. Expedia for travel questions)</p> <p>* No Bixby button is allowed in samsung keyboard or Samsung internet browser</p>	<p>* No 3rd party assistants on DHA and -1 screen ... with active hotword out of the box</p> <p>... with HW buttons or gestures enabled out of the box</p> <p>* First party assistants ok</p>	none
Security	<p>* For flagships (e.g. S and Note series), monthly updates for Confidential years and quarterly in the Confidential year</p> <p>* For high volume devices (e.g. A and J series excluding J1), quarterly updates for Confidential years</p>	<p>* New devices must be updated quarterly for two years after launch</p> <p>* Requirement is phased in over time</p>	none
UX	none	<p>* Optional Apps: Gmail, Calendar, Photos, Keyboard set as default</p> <p>* Android Messenger in Hotseat and Default</p> <p>* Duo on DHS (optional)</p>	none
Other product	* Daydream support of flagships, including Note8 &	none	none

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related provisions	S9		
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Update from Jamie to Ruth and Sundar on July 20 for reference:

Ruth, Sundar,

Hiroshi asked that we provide you with a quick summary of where we are with the Samsung search revenue share deal, in case you need it as context for earnings. Status is below, and we also have a deal summary [here](#) in the deck we reviewed with Sundar, Philipp and JG in early May. Jim (cc'ed) is leading for us. Please let us know if we can clarify anything or provide more detail. Jim is also looking into when we can bring this to BC.

Jamie

Status & Timeline

- We have verbally agreed to terms with Samsung (consistent with the terms in the deck).
- We expect to send them a draft contract next week, and hope to have counter-signature by end of August. We some time when the Samsung deal team pivoted its priority to completing a license agreement with us for our search backfill feed for the Bixby Voice Assistant, which launched on Tuesday. Back on track now.

Key Terms

- Traditional commitments are in place (e.g., search defaults on all access points, search exclusivity on a device-by-device basis).
- Additional commitments include letter and security updates for flagship and high-volume devices, Daydream support for Samsung flagships, and 2 set-up screens as part of device setup for Google Assistant/Search. We also have 3rd party assistant protections (cannot be on default home screen; hotword cannot be enabled out of box). Samsung is free to implement its own assistant, subject to a key condition described below.

- Note that even though we don't have a signed agreement, Samsung has already begun to execute on some of these commitments (such as Daydream and Assistant setup screens on Note 8)

- For a device to qualify for revenue share, we also required Samsung to use Google as backfill for Bixby (they had been seriously considering other providers)

Confidential year term.

Financials

- The revenue share is Confidential of net, after deducting Confidential for expenses (for both new devices and the installed base). We eliminated the Confidential tier several months ago because Samsung could not commit to Chrome in the hot seat, and/or dedicating the -1 screen to the Google Feed. The revenue share in the current deal is Confidential of net, after Confidential deduction.

- Projected payments are Confidential over the next two years, which is an increase of Confidential over their current revenue share rate. We are updating these numbers as the projections were run in April. Confidential will be paid on the installed base. Confidential on new devices.

- To keep focus on getting the deal done quickly, we'd like to be able to pay them the higher revenue share for July if we can get the deal done by end of August (working with your team to confirm we can do this).

Risks

- In addition to the typical adventures that come from going from term sheet to long form, we are watching carefully for any signals of Samsung's plan to extend Bixby into other protected access points, such as browser or keyboard. This could meaningfully change the dynamics with those access points and our protections in the deal generally... so we are being vigilant there.

End of Christian's mail

----- Forwarded message -----

From: Michael Murphy | Redacted @google.com>

Date: Tue, Sep 5, 2017 at 12:01 PM

Subject: Re: BC Deal Review: Agenda for Tuesday Sept 5th at 8:30 AM PST and Wednesday Sept 6th at 8:00 AM PST

To: Jeremy Butteriss | Redacted @google.com>

Cc: Jason Pellegrino | Redacted @google.com>, Joan Braddi | Redacted @google.com>, Cristina Bitar | Redacted @google.com>,
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+Deal team, stakeholders for Samsung

Hi BC Constituents,

As mentioned in the agenda sent last week, we are sharing the materials for the Samsung proposal. For context, this deal is a follow-up to an [approved proposal](#) from November 2015.

Please note that Sridhar is unable to attend at the scheduled time; we've scheduled a separate review with he and the deal team at 8:30 AM PST on Thursday.

Best regards,

Mike

Wednesday, 9/6 at 8:00 AM PST

1. Samsung RSA (Materials)

- **Reason for BC review:** Non-standard RSA, Top Partner
- **Asks for BC:**
 - Requesting approval for Mobile Search Revenue Share Agreement with Samsung at Confidential gross on current and new devices
 - Projected payout Confidential over [redacted] years
- **Representatives:**
 - Jim Kolotouros (VP, Partnerships)
 - Steven Hahn (Senior Counsel)
 - Christian Cramer (Finance Director, Platforms & Ecosystems)
- **Rationale in support of the proposal:**
 - Secures Google access on Samsung devices including:
 - Google as default search/exclusive search
 - Google search backfill for Bixby
 - Security and letter upgrades
 - Daydream support on specific devices

On Tue, Sep 5, 2017 at 10:33 AM, Michael Murphy Redacted@google.com> wrote:

Hi BC constituents,

We have rescheduled today's deal review for Fairfax from 8:30 AM PST to 4:30 PM PST (7:30 AM SGT and 9:30 AM in Australia) to accommodate a more friendly time for the team joining from APAC. The calendar has been updated accordingly.

Special thanks to the quorum's executive business partners for working to find a friendlier time.

We will be sharing later today materials for the Samsung review, which remains scheduled for tomorrow morning at 8 AM PST (with a separate review for Sridhar on Thursday). The team is based in the US for that deal, so the time is suitable.

Best regards,

Mike

On Mon, Sep 4, 2017 at 7:58 PM, Jeremy Butteriss Redacted@google.com> wrote:

To add to Jason's points, Fairfax are also part of the working group for the subscription product Bez is working. So we would be helping with both revenue streams consistent with our global approach with premium publishers.

Granted more success on subscriptions could lower ad revenue with fewer total visitors and therefore lessen our upside potential, it would also lower downside risk. We would also get access to login data to help with targeting.

On Sep 5, 2017 7:42 AM, "Jason Pellegrino" Redacted@google.com> wrote:

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