

Message

From: Jeff Shardell [Redacted@google.com]
Sent: 6/4/2007 2:07:56 AM
To: Sundar Pichai [Redacted@google.com]
CC: Anne Strand [Redacted@google.com]; Karen Tsay [Redacted@google.com]
Subject: Apple EMG Deal review
Attachments: deal_review_Apple 6_4_07.ppt

Sundar/Anne,

Please find attached my preso for Deal review tomorrow.

Sundar, as we discussed on Friday, do you have any additional supporting info we can provide around browser revenue trends (e.g. people shifting away from toolbar searches and towards start page, etc...)? Let's discuss this evening when you have a moment.

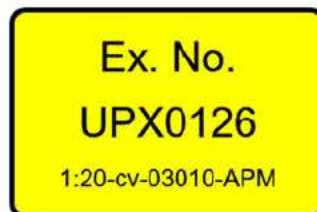
Anne/Karen, please look at this (especially the last slide where I estimate revenue impact of my proposed deal structure) - looking for a sanity check here.

Thanks,

Jeff

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GOOG-DOJ-07367235

**Apple, Inc.
Search Partnership**

Jeff Shardell
June 4, 2007

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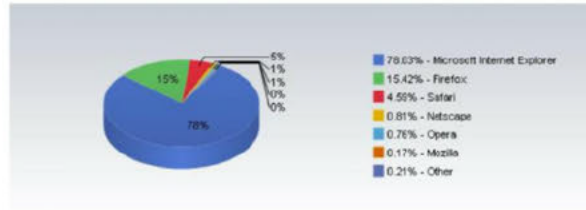
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Apple Partnership Overview



- Description

- Produces and markets PCs and other peripherals to design-conscious consumers
- Paid search partnership in place since January 2005 for searches stemming from the Apple Safari browser



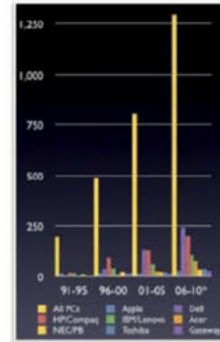
Source: Net Applications, April 2007

- Size

- 2006 Revenue: \$19.3 B
- 2006 Net Income: \$2.0 B
- Market cap: \$104.8 B

- Market presence

- 2.3 % PC market share of new PC sales
- 4.59% browser market share

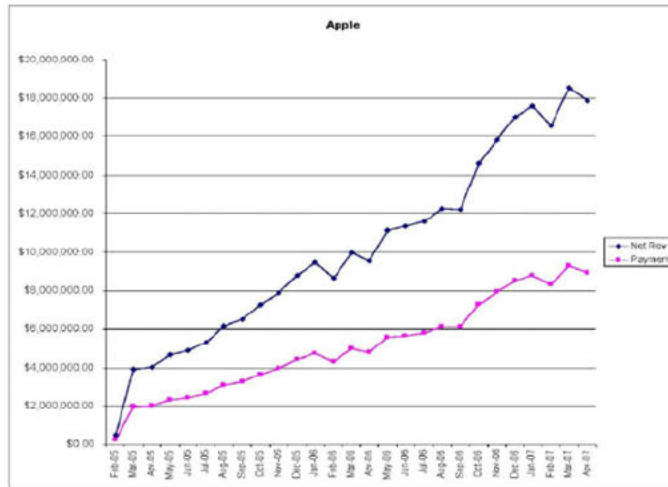


Source: IDC/Gartner, January 2007

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Apple – Revenue Trends Since Deal Inception



Net Revenue

2005: \$59.9 M

2006: \$143.6 M

2007 YTD: \$70.6 M

Total: \$274.1 M

Payments to Apple

2005: \$29.9 M

2006: \$71.8 M

2007 YTD: \$35.3 M

Total: \$137.1 M

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Deal Overview

- Current deals terms:
 - Google default (and exclusive) search provider in Safari browser
 - 50% Net Revenue Share after 10% deductions for queries stemming from the Apple browser chrome
 - Term through January 2008
- What Apple wants:
 - Launching Safari for PCs and wants current deal terms to apply to this new OS
 - Google to be one of two possible choices for search provider (not default); user required to choose search provider prior to using browser
 - Apple wants current deal terms to extend to Safari browser for PC OS
 - Contract open re: OS, but requires Google to be the default search provider to qualify for revenue share
- Key issues
 - Apple uncooperative vis a vis Google's efforts on Chrome utilizing their open source platform
 - Strategic considerations with respect to supporting PC version of Safari vis a vis Chrome launch plans
 - Revenue share seems rich for non-default and non-exclusive deal

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Impact if Existing Deal Terms

- **Likely Scenario:**

- *Assume new browser has **same chrome query growth as Firefox had in its first year**

- *Use current Firefox worldwide RPMs from chrome searches

- *Apply the rev share we give Safari (45% of gross)

- *Annual rev share payment to Apple would = **\$90M**

- **Aggressive Scenario:**

- *Assume new browser comes out of the gate with the **same worldwide market share as Firefox** (20% according to our

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- *Use current Firefox worldwide RPMs from chrome searches

- *Apply the rev share we give Safari (45% of gross)

- *Annual rev share payment to Apple would = **\$205M**



Sales Recommendations / Asks

Recommendations / Asks

Option 1 (Google is NOT default):

- No revenue share to Apple

Option 2 (Google IS default):

- If Google is the default search provider, we share 10%-20% net revenue after 10% operating costs
- Cap revenue to Apple at \$50M year 1 and \$100M year 2
- Apple must agree to support Google in Chrome development
- In payment for this support, we share with Apple 2%-5% net revenue (after 10% op costs) for Chrome search box results

Rationale / Issues / Risks

Option 1:

- Why share revenue with Apple when they haven't done anything to "earn" it?
- If they want to offer the user choice, they would likely still include Google as a search option

Option 2:

- Provide them with lower rev share than Mac OS deal
- Cap revenue to avoid excessive payments since this revenue may be cannibalized from existing www.google.com rev
- Rev share with Chrome revenue provides them with an incentive to support Google

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Possible Impact of Proposed Deal Terms

- Year 1 Payment to Apple (assume FF year 1 ramp):
 - \$18M – \$36M
- Year 2 Payment to Apple (assume 20% mkt share):
 - \$41M - \$82M
- Revenue payments from Chrome are unknown at this time

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