
Samsung-Apple Licensing Discussion

October 5, 2010



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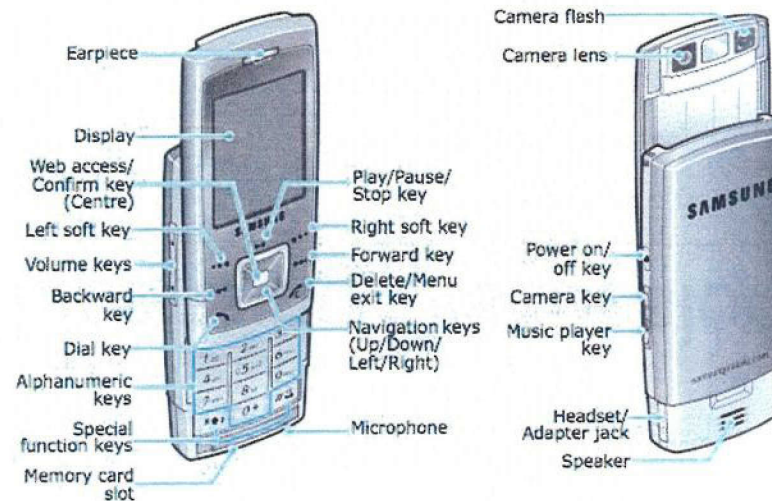
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1

DEFENDANT'S EXHIBIT
NO. 586.001
United States District Court
Northern District of California
No. 11-CV-01846-LHK (PSG)
Apple v. Samsung
Date Submitted: _____
By: _____

APLNDC00010886

A Basic Phone has basic features ...



What changed? What makes an GalaxyS so different?



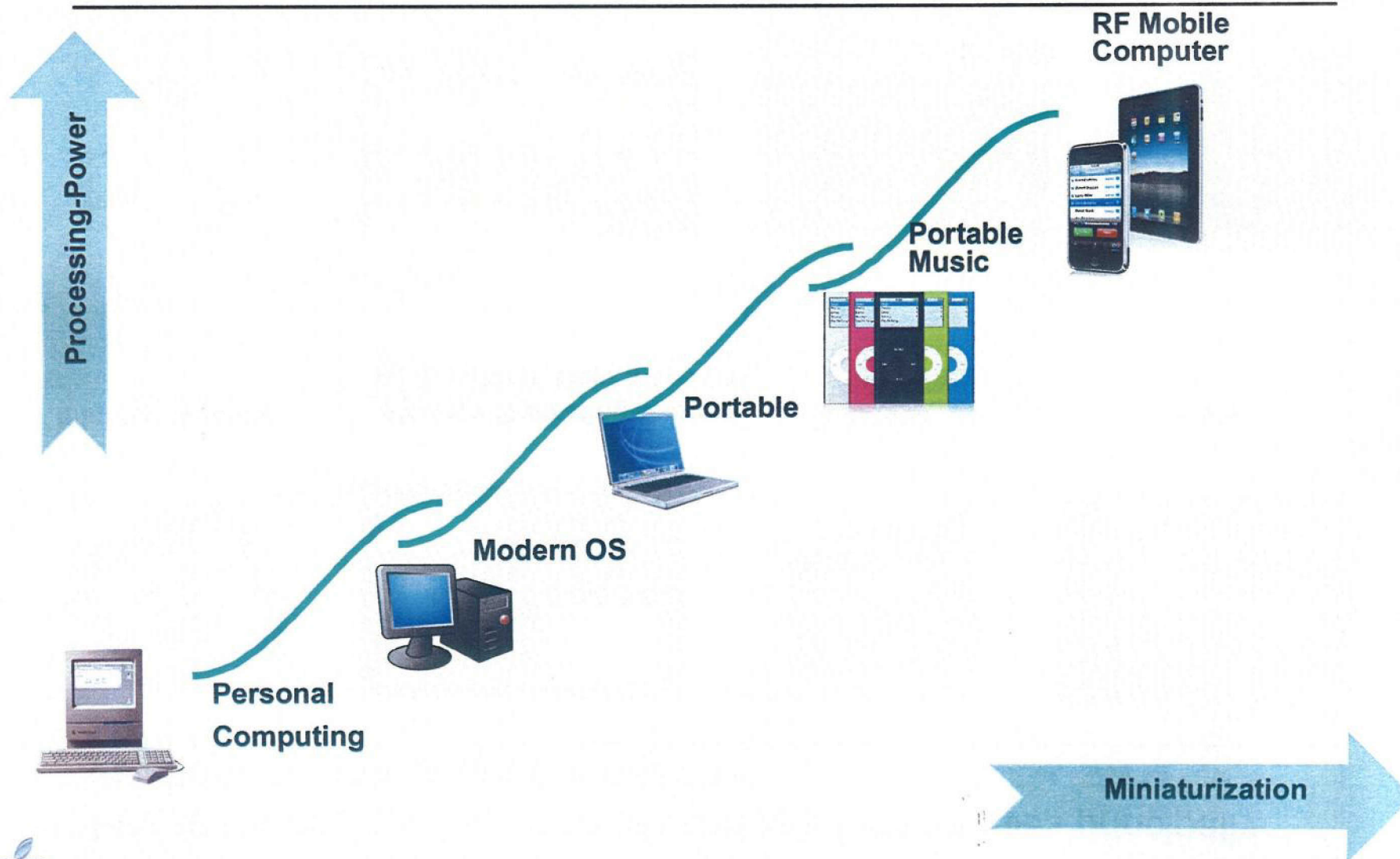
... but Advanced Mobile Computing Devices are different



- **Software** creates the largest share of product value
- Operating system, applications, user interface, and services are the key to a ***differentiated customer experience***
- ***iPhone became the archetype*** for advanced mobile computing devices
- Software has always been at the heart of Apple's business and intellectual property portfolio



Apple and its Computing Products have Evolved as well



Mobile Computers rely upon several key technologies principally developed in the computing industry



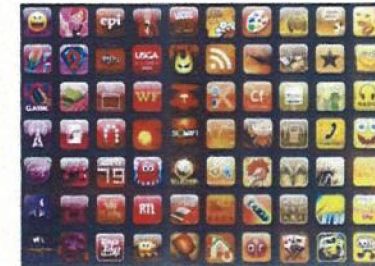
Microprocessor



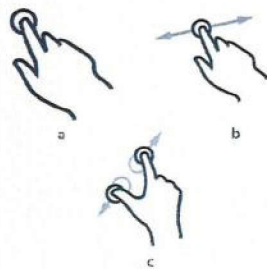
**Modern Operating System
w/ Graphical User Interface**



Graphics



Apps



Touch



Music



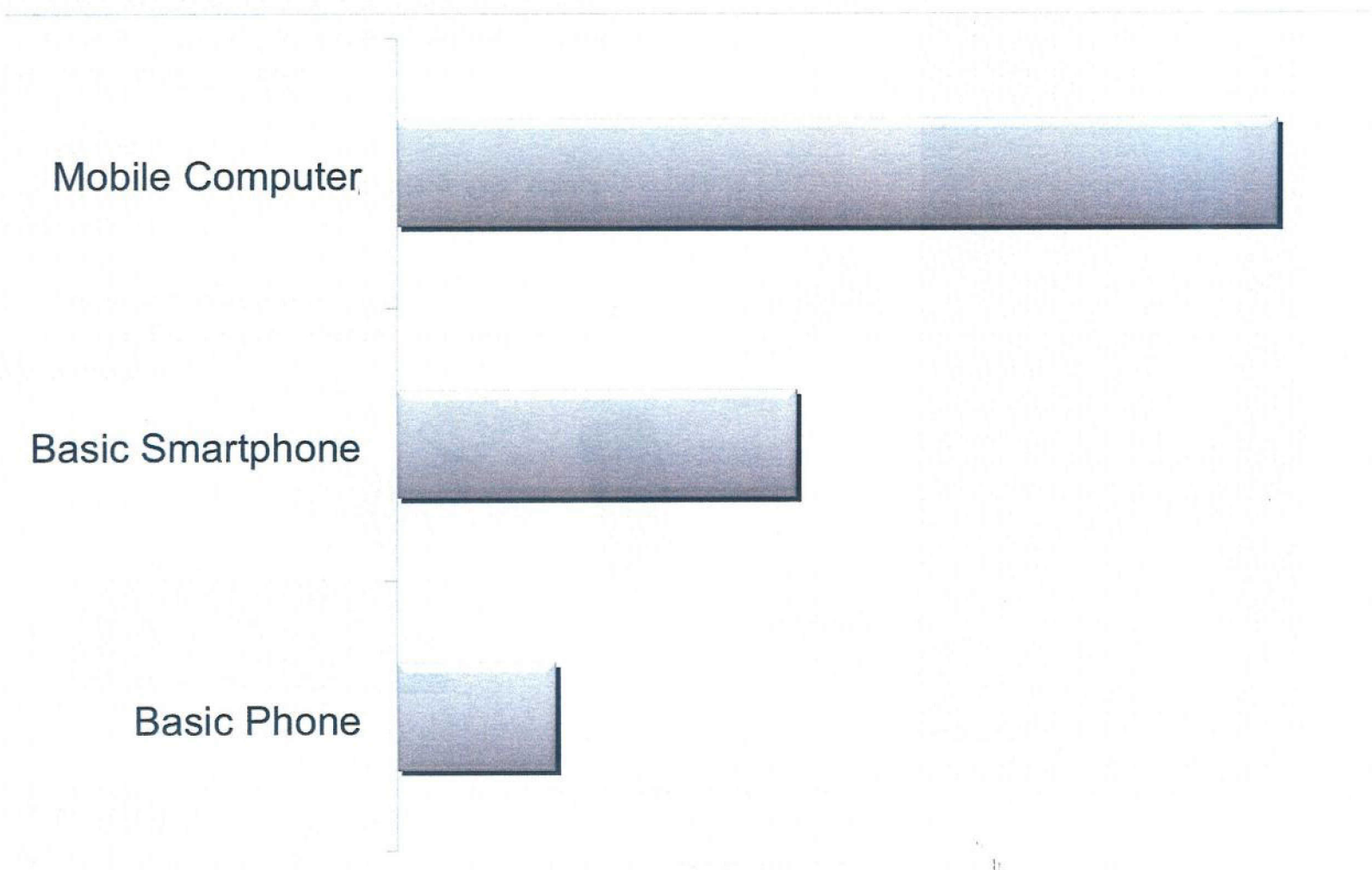
Video



Gaming



Mobile computers create more value for customers -- and sell for more -- by virtue of the additional technologies that enable them



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APLNDC00010892

We model 3 types of patent licenses to cover wireless and computing technologies

Basic telephony
Basic network interface – industry-standardized air interface (least common denominator) and apps format



Apple core computing

Apple core computing technologies for modern and mobile computing developed over 20 years on desktop and laptop computer platform

- Modern, real computing platform
- Extensible, programmable OS
- Software application platform
- Advanced, friendly user interface
- Graphics and multimedia
- Component-based architecture with component links
- Internet and network technology

Apple advanced features

Apple's iPod and iPhone innovations have defined the standard for modern high-end consumer devices

- Multitouch user interface
- Apps and App Store
- iTunes media store and media player
- Real Web and Web services
- Advanced sensors and device context
- Service-oriented offering

- **Phone license**
 - Basic Telephony (e.g. wireless standards, java, processor, graphics, misc HW)
- **“Smart” license**
 - Apple Computing technologies (e.g. O/S, object oriented, etc.)
- **“Advanced Mobile” license**
 - Advanced iPhone Technologies needed to create an “advanced” class device (e.g. Touch, GUI, apps, music, etc.)

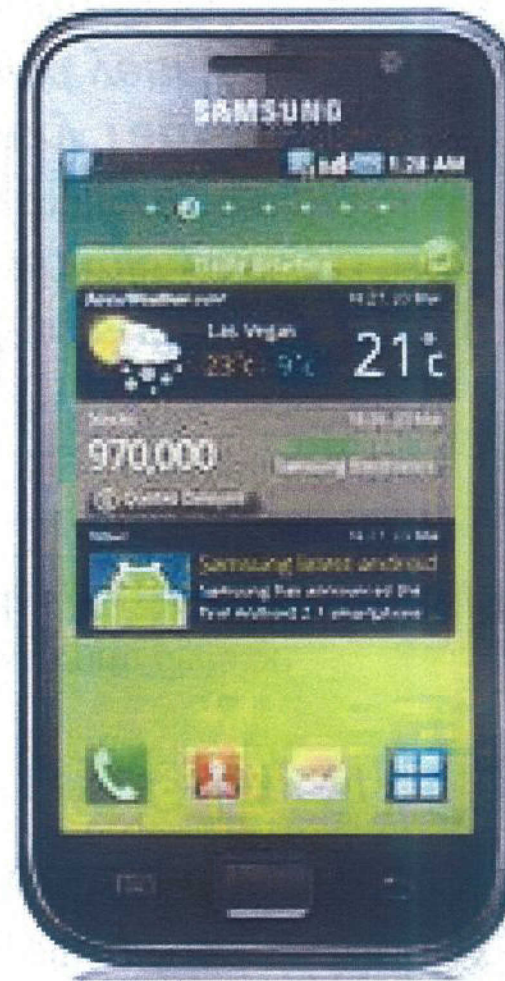
** Each license includes distinct technologies, so an iPhone advanced mobile class device would require all 3 licenses, while a basic phone would require only the phone license.*



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Samsung adopted, embraced and imitated the iPhone archetype

- ***Samsung chose to embrace and imitate Apple's iPhone archetype***
- Apple would have preferred that Samsung ***request a license to do this in advance***
- Because Samsung is a strategic supplier to Apple, we are prepared to ***offer a royalty-bearing license for this category of device***



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Samsung launched a major offensive, targeting Apple's Mobile Computing Paradigm with both smartphones and tablets

*"Samsung could sell **10 million units** of the new [Galaxy S] smartphone globally **this year**."*¹

– JK Shin, head of Samsung's mobile comm. division

*"Samsung also expects to sell about **25 million smartphones this year**."*¹

– JK Shin, head of Samsung's mobile comm. division

*"Samsung is aiming for a double-digit market share for global smartphones by the end of this year... Samsung's **smartphone sales are likely to double next year** from this year."*¹

– JK Shin, head of Samsung's mobile comm. division

*"[Samsung] expects to ship **10 million [Galaxy Tablet] units** and take a third of the global tablet market next year"*²

– Hankil Yoon, Samsung product executive

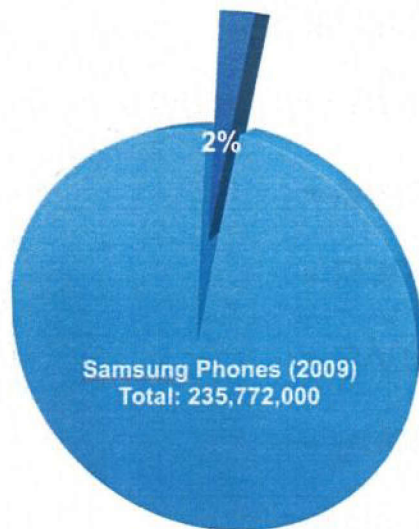
¹ SE Young Lee, "Samsung Expects Profit Boost From Mobile Phones", The Wall Street Journal, Sep 3, 2010

² Spencer E. Ante, "Phone Giants to Sell Samsung Tablet PC", The Wall Street Journal, Sep 11, 2010



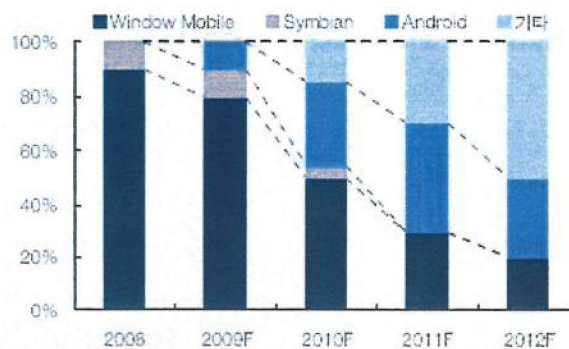
Samsung is a major vendor of advanced mobile computing devices such as smartphones and tablets

Samsung Smartphones (2009)
Total: 5,872,000



Year	Smartphone Volume (000)	Tablet Volume (000)
2009	5,900	--
2010	25,000	2,000
2011	50,000	10,000
2012	60,000	12,000
2013	72,000	14,000
2014	86,000	17,000
TOTAL	293,000	55,000

Samsung Smartphones by OS



Source : HMC Investment Securities



Apple Smartphone Licensing Rates

- \$30 USD per Licensed Smartphone
 - Licensed Smartphones: touchscreen devices based on --
 - Android units
 - Symbian units
 - Bada, unless Apple proprietary features avoided
 - Windows, others - to be discussed
- \$40 USD per Licensed Touchscreen Tablet
 - Reducing to \$30 over 2 years



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We will provide Samsung with a number of options for obtaining a cost-effective license to our patent portfolio

Samsung
Portfolio

Like other major Apple suppliers Samsung has a substantial patent portfolio, albeit it is largely oriented in supplier-type areas

Apple-
licensed O/S

Some Samsung products may make use of an OS largely licensed to Apple patents (e.g. Windows Mobile)

Apple-
licensed
Processors

Samsung may wish to encourage its other processor manufacturers to take a license

Not Using
Proprietary
Features

Some Samsung "smartphone" products may not adopt distinctive industrial designs, software platforms or feature sets

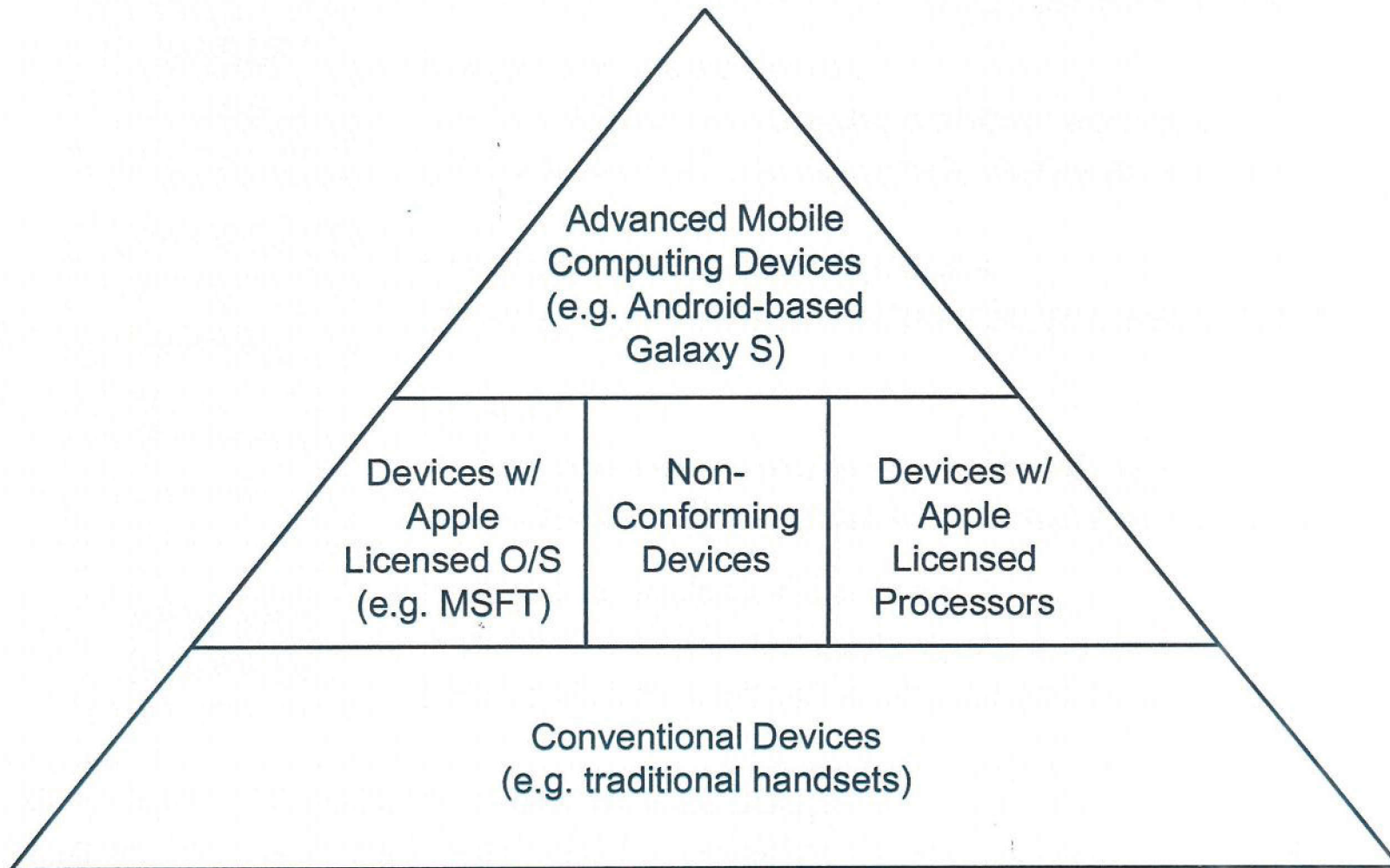
Conventional
Mobile
Devices

Most Samsung phones are Basic Phones that are not intended to serve as advanced mobile computing devices



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Samsung may avail itself of these options, and in doing so obtain an Apple patent license on the most cost effective basis possible.



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14

We will provide Samsung with a number of options for obtaining the most cost-effective possible license to our patent portfolio

Advanced Mobile Computing Device Royalty Rate	\$US 30/ unit	x	Samsung Portfolio	20% Discount
			Apple-licensed O/S	40% Discount
Tablet Royalty Rate	\$US 40 unit	x	Apple-licensed Processors	20% Discount
			Not Using Proprietary Features	20% Discount



EXAMPLE 1: Windows-based non-touch device

Samsung Blackjack II™ Smartphone



Samsung
Portfolio

Cross license
• 20% discount

Apple-
licensed O/S

Microsoft licensed O/S tech
• 40% discount

Apple-
licensed
Processors

n/a

Not Using
Proprietary
Features

Physical QWERTY form factor
• 20% discount

Total


80% discount



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16

EXAMPLE 2: Android-based full touch screen devices

	Samsung Portfolio	Cross license • 20% discount
	Apple-licensed O/S	Completely unlicensed Android OS - No discount
	Apple-licensed Processors	n/a
	Not Using Proprietary Features	Full touch screen device - No discount
Total		20% discount



Example year: 2010

	Android	Windows Mobile 7	Bada, Symbian & Other	Tablet
Samsung Est. Units (m)	10	10	5	2
Royalty per Unit	\$30	\$30	\$30	\$40
Portfolio Discount	(\$6)	(\$6)	(\$6)	(\$8)
Licensed OS Discount	\$0	(\$12)	\$0	\$0
Licensed MPU Discount	\$0	\$0	\$0	\$0
Not using Apple Proprietary Features*	\$0	(\$3)	(\$3)	\$0
Total Discounted Royalty per Unit	\$24	\$9	\$21	\$32
Gross Royalties (m\$)	\$240	\$90	\$105	\$64
Product Impact (est. 50%)	(\$120)	(\$45)	(\$53)	(\$32)
Net Royalties Due (m\$)	\$120	\$45	\$53	\$32
CY 2010 License Total (m\$)				\$250

* Specific Apple Proprietary Features to be discussed

- Samsung launched a major offensive, targeting Apple's smartphones and tablets
- Simple calculation of Apple's lost profits based on current market share yields profound lost profits
- These figures pale in comparison to Apple-Samsung's balance-of-trade
- Samsung should respond favorably



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Notes Page Text

- Slide 2 : Handsets were focused on improved voice & data connectivity
- Differentiation was typically around hardware (clam shell, slide, soft keys), industrial design and specialty features (e.g., camera)



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Notes Page Text

- Slide 3 : creating a smartphone that was primarily about PIM or music or camera centric....
- This evolution was not a logical one. In many ways I compare it to the extinct homo-erectus vs. the homo-sapiens that won out in the evolutionary cycle. Can you imagine your kids every wanting just a phone.
- iPhone defined the paradigm of an advanced mobile computer



Notes Page Text

- Slide 4 : Transition from HW differentiation to Software.



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Notes Page Text

- Slide 5 : As processing-power (as a function of battery) continued to increase Apple pioneered the GUI based OS, then pursue miniaturization thru portables ultimately revolutionizing the music industry and then the handset industry with the iPhone paradigm.
- Along the way we made significant inventions in Modern OS, processors, graphics, music and defined the paradigm for what an advanced smart phone was.



Notes Page Text

- Slide 6 : In the iPhone paradigm, a phone is no longer just a phone and as such is reliant upon many more technologies that lie in the heart of Apple's IP portfolio.



Notes Page Text

- Slide 7 : The industry responded and values these devices in very different manner than a traditional basic feature phone or even a PIM centric smartphone.



Notes Page Text

- Slide 8 : Since even the feature phones rely upon apple innovations – e.g., java, processors and the smart phones relies upon Modern OS, graphics, OO ->
- Apple's computing legacy is relevant and important for these classes of phones.
- Prior to launching iPhone in 2007; Apple wisely filed a large number of patents covering the implementation of the iPhone.
- Since Apple's paradigm of an advanced smartphone won -> Apple's portfolio will become the most important and most valuable part of the IP stack for the next decade.
- This portfolio from 2007 is now maturing and as a result we've initiated discussions with all the handset makers.
- Samsung's portfolio is largely in basic telephony and is characterized by roughly 2/3's of the patents shared with us that you represent as std's essentials.



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Notes Page Text

- Slide 10 : These quotes provide the basis for how Samsung acknowledges its adoption of Apple's strategy as a major initiative.
- We take this as a major offensive – targeting our business.



Notes Page Text

- Slide 11 : Historically your smartphone volumes were low and had a mix of windows, symbian and now bada & android with aggressive growth plans.



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Notes Page Text

- Slide 12 : Despite not asking for a license, Apple is prepared to extend an offer to Samsung rather than...



Notes Page Text

- Slide 13 : Apple's pricing offer can be mitigated by a number of options for Samsung to consider.
- Samsung's portfolio will be applied as a discount to our license
- In cases where Apple has licensed or will license O/S or processors we will pass those licenses to Samsung – Apple is not interested in double charging
- If Samsung is interested in not using Apple's most proprietary features (e.g. FaceView) & migrating its industrial design away from iPhone/iPad then we contemplate another level of discount.
- In a friendly bilateral discussion we are not targeting your conventional phones



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Notes Page Text

- Slide 14 : Price low-high



Notes Page Text

- Slide 16 : 80% discount = royalty of \$6



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Notes Page Text

- Slide 17 : 20% discount = royalty \$24

