Tom Melcher, 02:28 PM 5/25/97, Talk with Suzan Fine

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PENGAD-Bayonne, N.J.
GOVERNMENT EXHIBIT
207

Notes from 5/23 2-4p discussion. Melcher and Fine

This follows the outline I prepared prior to the meeting:

[Note. I took copious notes. I've attempted to write down everything importnat she said. In some cases, where I use "" marks, it's verbatim. In most cases it's very close to what she said, but I'm not sure it's exactly verbatim. All of these notes are written as is Suzan was talking, so "we" means Microsoft. When I have a comment, I put it in [] brackets.]

Thoughts after meeting with us last time?
- "Very cool stuff. Would really like to figure out a way for us to work together."
- "We have some potential conflicts of interest, esp with the ISPs. You guys are going to them and so are we. We want to make sure the content partners we're signing up get distributed, and that won't happen if the ISPs choose you."
- "we really like your company and your team, and feel that it'll be easy to have a good working relationship."

1. *MARKET SIZE AND TIMING*
   - *When will the beta IE4 be ready? The final IE4?*

     The release for ICP (Information Content Partners, of whom cnet is one) is ready today and will be made available on Tuesday to cnet and the other ICPs in the beta program. The IE4 beta is scheduled for release to the public on the web on June 30th. We'll need all content back from the ICPs by June 27. the June 30th date might slip until the "first few days in July."

     "while we're very interested in cnet being one of the beta participants, we're only going to include channels that have signed up for final distribution. We don't wnat to have to remove the links from the beta when we ship the final. If cnet wants to be in the beta, we're going to have to figure this all out quickly."

     The final IE4 is expected for late august, but a slip to mid-September is likely.

     the term of the deal is for 1 year from first shipment, which probably means Sept - Sept.

   - *What are the distribution plans (Win95, WinNT; ISPs, PC Companies, Retail; US/Intl, etc)?*

     All of the original default ICPs will be in all versions shipped. These include the retail Internet Starter Kit ($19.95), which won't sell much because most people will get it for free; other Microsoft products that include IE; all OEM PC companies who ship Win95 or Win NT.

     for the 1996 holidays, IE4 will be shipped with PCs on a CD-ROM, and then will be burned into the next rev of the hard drive [btw, why can't we do that with Snap and get into the Xmas distribution window? If we did a Cd-ROM version first for this purpose, we'll also have it done for the marketers, right?]

     "We think the bigest distribution will come from MS itself, over the web and through products like Win95. We've also set up huge 800 number lines so people can order the CD directly. IE4 will also be included in the software upgrade package to Win95 that will be released in Jan98."

     IE4 will be distributed directly by the ISPs, by other Microsoft software partners, and by the ICPs directly.

The IE4 ICP deals are only for the US market. International versions of IE4 will not have pre-loaded channels, but will instead automatically point to a channel guide on startup, from which the user can select a channel or set of channels they want in their language. they'll also be able to see the US channels and select those if they want."

- *What is the expected installed base over what period of time?*

"there are 58 million Win32 users in the US, and alot of them are not using the Net. The cached content component of IE4 will be a big way for them to understand why they should get online. Every new machine shipped in the US will have this, and while some of those are replacements, most are not replacements in terms of net-accessing consumers. Ms has a 30% share of browsers, but on Win32 machines, the share is more like 40-50%."

- *When will IE5 be out and how much will that obsolete IE4?*

"I have no idea, but I doubt it will be soon. Besides, I'm not sure it matters. we are still shipping IE1 in large volume as part of Microsoft Plus, since that product is in retail and its too expensive to change our the IE component. So even if we shipped IE5 immediately, we and our partners will probably still ship a lot of IE4.

The other thing to keep in mind is that the default positions in IE5 are much less valuable and may not even matter. By that point, consumers will already have their favorite channels, and we'll need to make sure they rollover seamlessly to any new version. the time to grab slots is now."

"there are no guarantees on volumes. We know how many units will be shipped, but we don't know how many people will click on a given channel, much less actually use it on an on-going basis."

2. *CHANNELS*
- *Are any of the top channels available for Redball and/or Snap?*
- *How many top-level channels will there be? What will they be? When will that selection be nailed down?*

No. The top slots are all taken or about to be finalized. There are 12 buttons visible on a 640x480 screen, and we're not planning to offer more than 12 default buttons. The user can add more, and the list scrolls. The channel listing is on the right-hand side [we saw an earlier version where it was on the left], and is part of the wallpaper definition. This means that the channels are always there, but they can be overlaid with something else on top. They don't function like the auto-hide start menu.

The 12 channels are: MSN, MSNBC, PointCast, Channel Guide, News, Sports, Business, Technology, Entertainment, "Distributor" (to be filled by an OEM or an ISP), Open (11), and Open (12).

"The 12 are locked down, unless something doesn't come through. Not all of the deals have been closed."

"The two Open channels have been offered to content aggregators, who compete with MSN and Snap!, based on what we saw. Those deals have not been signed, but I'm very sure they will be. There's probably no window for you at that level. Believe me, a lot of people have raised the question of being in those slots. It's turned into a weird situation, and if we don't close these last 2 deals, we'll probably turn those slots into more categories, like Family/Living. I won't give them away to someone else. Even if we pulled one of the aggregators, and made a spot for Snap!, the problem is that the brand is weak and there is no one there to explain what it means.""

"What's interesting is that in usability testing, people don't click on the aggregators. They don't know what they are, especially new users. The categories have a lot more power. They know they're looking for sports and

they click on sports. It's not that aggregation is bad, but for new web users, which is our target, they're not as powerful."

[I asked her why they were giving those 2 slots to aggregators, plus other slots for PointCast and MSN, given this research] "to be honest, some of our relationships were already baked before we had really thought this through."

- *How many 2nd level channels will be in the default for each of the top level channels? Have any of those been selected? When will selections be nailed down?*

There will be no more than 25 total default channels within the categories, which works out to about 5 per category. some will have a few more, some will have a few less. Entertainment, for instance, is a bigger category. In the ICP deal, we commit that there will be no more than X providers in the relevant category.

the order of the ICPs in a given category will be determined randomly. It won't necessarily be alphabetical, and isn't a negotiated item.

- *Where will the content providers announced today be placed in the hierarchy?*

The content providers announced this week are not the ones who will be the 25 default channels in the channel bar. Some of them will, but most of them won't. We have not yet announced who will be in the channel bar. That being said, it's easy to guess who among the recent announced ICPs will be in the channel bar. The Wall Street Journal, for instance, might be in the News bar.

The ICPs already annonced will be in a corporate IS manager version of the IE Admin Kit (IEAK). The IEAK starts with a plain vanilla IE4, and has a ton of corporate business-focused content on a CD-ROM for loading. ICPs like Reed-Elsivier, Lexis-Nexis. The IS manager can configure IE4 to sit his organization's needs. He can pick and choose what channels to include, and can lock down those choices. He can also lock down the ability for someone to add an Entertainment or Sports channel to their IE4. [ohmigod, IS managers will love this, as will Scott Adams, the Dilbert guy...]

- *Can a user remove some or all of the channels? How do they do this?*

A user can change everything [unless, I presume, they work in a company that bought and implemented the IEAK]. A user can add and delete channels, add and delete categories, pul channels out of categories and place them direclty on the desktop. They can delete MSN, MSNBC, and PointCast. In short, they can completely configure the desktop experience.

The scary thing about this for ICPs is that someone can delete you from the default and there's nothing we or you can do about it. The good news is that most people never change the default settings they get. [When I told her that was because it was so hard to do, she laughed and said that MS knew that and was trying to make it easier....]

- *how is Microsoft handling competitive issues among channel providers (i.e., will there be 'exclusives' in a given category)?*

"We have not and will not grant exclusivities. We don't think it's in the best interest of consumers, or Microsoft. Plenty of people have asked for them, and we've just said no. For example, at this week's announcement you have Fortune and Forbes sitting next to each other on stage. Somebady made a joke about it."

[I asked her how she helped media companies get over what must be a very frequent request for exclusivity.] "First of all, there is a very small group of default channels. 25 in total [not counting MSN, MSNBC, Pointcast, and the 2 unknown aggregators]. By being on that list, you already have cachet and exclusivity in a very powerful way. Second, we're being very exclusive in the sites we select. We're telling the consumer that these are the very best sites on the Web. The thing you have to keep in mind is that we are offering the

default ICPs tremendous amounts of distribution, which is worth a great deal. You're always welcome to write a channel on your own and just not be in the default channel bar. Abiding by Microsoft's requests for exlusivity against Netscape and others is not a requirement for being in IE4. It's only a requirement to receive, in return, the advantages of being a default choice on the Windows desktop. If this tradeoff is not comfortable to you, don't do it. We'd love you to support the platform, and hope that is a good business decision for you."

"We are not flexible on giving different things to different ICPs. Everyone has agreed to the same basic terms, especially regarding exclusivity. This includes the Wall Street Journal, for instance. I cannot give cnet something I haven't given the others, because it wouldn't be fair."

- *Which cnet properties is MS interested in carrying? In which channels?*

"a slot is a slot. You guys should think through where you think you're the strongest, and use that as your key channel. It's up to you. the obvious issue is to think through the requirements for exclusivity and promotion on your web sites. Ideally, from our perspective, we would put a "CNET" button in the Technology group. [Since this wasn't a negotiation call, I didn't ask her whether we could be listed in more than one place as a default, though from her comments I'm pretty sure the answer would be no. That being said, CNET could probably be listed in different places in the Channel Guide.]

[She would not tell me who else would be in the technology category.] We are being very selective, and choosing information providers, not people with something to sell. There is no eCommerce component of IE4 [at least, not yet...]. "It's safe for yuou to assume that people you view as direct competitors of cnet [the media company] will be in the Technology channel as well."

- *Are there other functions (like searching and downloading) in IE4? Are there opportunities for cnet?*

There is not a searching button within the Channel Bar. There is a search button within IE4 itself, just as there is one in IE3. Deciding who gets listed on that is handled separately from content, by a guy called Paul Osborne, who works for Brad Chase. We don't sell space on that button -- it's more of a barter thing. Paul has some very straight forward and standard deals. I don't think we had thought of search.com for that button, but we'd be happy to. I'll talk with Paul.

There is no place for downloading software. There is separate functionality for updating applications [sounded a lot like download manager]. This is Marimba-like. Updating applications is really important stuff, but it's not clear that CNET can do this. "Maybe the place to talk about download.com is from home.microsoft.com, which will be the Start page for IE4. From that page we'll list hot news, search capabilities, chat, communities, and other stuff. We could put download.com there. We could also list download.com in the Channel Guide." [We should make sure that placement on home.microsoft.com is part of any negotiation we pursue.]

3. *EXACT EXPECTATIONS OF A CHANNEL PROVIDER*

- *What (channel, desktop control, other) needs to be developed by what date (for the beta? for the final release?)*

CNET would need to "write a channel" according to the Channel Definition Format (CDF). YOu can write one or more desktop controls if you want. It's up to you. I think it would be cool for you to do a technology news ticker. [The dates were given above.]

Microsoft will enter you into the Channel Guide. Everyone who is part of the original 25 channels will be prominently listed. We'll figure out exactly what

that means and make sure it's consistent. In addition, when people do keyword searches we'll make sure that the default channels show up on top, more prominently than the other channels.

We won't run paid ads to promote the channels individually, but we can give you ad space in the Channel Guide for you to use (we should definitely ask for this.]

- *What exact marketing/co-promotion is required?*
  - *Within the channel/control?*

    [She was puzzled by this question.] We don't have any specific requirements for promotion within the IE4 channel you write. It's already a channel, so why do you need to further promote it? We don't really expect much promotion. It would be nice if you put our logo in it, but since the person is already using IE4, they are not the focus of our efforts.

  - *On the "normal" web site?*
  - *In other media?*
- *What are the exact exclusivity provisions?*

We care much more about promotion in the normal web site, since presumably people are coming to that site who are not yet IE4 users. So we require that you only promote IE4, and not other browsers. We want you to put a promotion for IE4 on the home page and on the top 15 oher most popular pages in your site.

We don't mind, and kind of prefer, that you promote your own IE4 channel in these slots, and not the MS brand or IE4. We'd love it if you simply said something like: 'click here to get a cool way to view cnet' or something like that. We want your readers to have an incentive to use the channel. Using the cnet channel on IE4 is equivalent to using IE4.

We've found that for news organizations, this approach makes the whole thing much more palatable. You're promoting yourselves, and we tag along. It's like promoting an interactive edition of your paper when you've only had a print one to date.

"There are no size and placement specs for this promotion. None of these requirements restrict in any way your ability to sell advertising to whomever you want."

The promotion doesn't necessarily have to be on the top 15 pages. We can trade. Some of the ICPs we've signed up have TV and print slots, and they traded those in lieu of extensive promotion on-line.

We also want to make sure that you're not compartmentalizing our relationship. We would want to associate our two brands. It's not something we can put in a contract, but we'd be unhappy if you were dong something with us around IE4, and something else with a competitor in another context. We do alot to promote our partnership with the WSJ, for example, and it's reciprocal. You won't see them doing something with Netscape.

[I asked her to explain how other news organizations justified granting the kind of exclusivity that MS was looking for]. "This is all about promoting their channel, and indirectly, promoting IE4. People used to be much more concerned about these things, but the general perception now is that buttons are everywhere and don't mean very much. That's why the higher-level brand association stuff is more important to us. The other thing to keep in mind is that the mass market, which is who we're really trying to reach, isn't necessarily even aware of what's going on. The vocal minority are, but no matter what you do you'll upset them. People also seem much less concerned when there seems to be a justifiable reason -- in this case, we think it's clearly superior technology that lets you

deliver a much better experience to your user. Finally, if that doesn't hold water, it's a straight-forward distribution deal -- news organizations are always looking for more distribution, and we don't think our exclusivity and promotional requirements are that stringent, especially when compared to the distribution we are providing.

- *How much customization can cnet Redball do for IE4 copies that cnet RedBall distributes? What restrictions/boundaries are there?*

You can add yourself to the top level icons by taking the Distributor/ISP slot for yourself. You can remove anyone else who is directly competitive with the channel you put into IE4, but you can't remove people who are generally competitive with cnet overall. For example, if Fortune wanted to ship a custom broswer, they could take out Forbes, but not a magazine that competed with one of the Time-Warner entertainment magazines.

- *How much customization can cnet Midway do for IE4 copies that cnet Midway distributes? What restrictions/boundaries are there?*

This one is a little more tricky. At first glance, Snap! is an online service like AOL. Online services get to change all of the channels and replace them with their own content. They own that content, and they ship an integrated experience. So with that comparison, Snap! would be able to ship with a completely reformatted browser.

But Snap! is kind of a weird hybrid. You aggregate, but don't really own your content, and you use third party ISPs for connectivity. YOu're something between an ISP and an online service.

An ISP is treated a lot like an ICP, and not like an online service. They get to put one channel at the top level, and can take out any other access providers they deem comptetitive. AT&T, for instance, could remove MCI, as well as AOL and MSN, since they provide access. If AOL sold net access separately, for example, that portion of their business would be subject to the ISP restrictions.

[I told her that Snap! is clearly an aggregator/online service, and asked how important it was to MS that we use IE4 exclusively]. "It's very importnat, and we're very interested in working something out.

"In fact, we think Snap! might be a very good solution for the ISPs to use to fill their slot. The problem, though, is this: we approach the ISPs with a limited-customizable IE4, and you approach them with a fully-customizable IE4, which also devliers a lot of other benefits, like tracking. Which one are they going to take? The guys who take the plain vanilla version from us get less control than the people who end up working with you. If they take Snap!, then we've lost a major way to provide distribution to our other ICPs.

[I asked her what it would take to make MS indifferent to this choice.] "If we knew Snap! was really dedicated to the IE platform, and that your content providers were the same people we've already signed up for our default 25, then the concerns would go away."

4. *TECHNICAL SUPPORT ISSUES*

- *When will detailed specs for the beta be available? how do we access them?*

The specs should be available on Tuesday and can be accessed in the way you're already getting information from us. Sunder is your contact. He's taking care of the top ICP accounts.

- *When will the IEAK be available (beta? Final?)?*

I don't know. Originally it was supposed to be a couple of weeks after the beta, but I haven't heard from the team today.

- *Can we get a dedicated engineering contact?*

  Sunder is your contact. Let him know specifically what else you need.

  [I asked about access to the ISP referral server]. "That's run by a separate group, the ISP team. You haven't had access to this information because we didn't think you needed it. I don't have a problem getting you the information, but that means we'll have to widen the circle of Microsoft people who know what you're doing. As far as I know, we have not made any changes to the referral server for IE4. If you use it, you can redirect the home page, like you can today. I'll try to check on exactly what is different."

- *What VB scripting support is available?*

  We don't really have spare people around. Sunder can find you 3rd parties who are good at this. You don't need to use VB; you could also use J Script. We can help fund some 3rd party people if that's a critical item for you.

- *What are the various levels of support for content developers? Is this support free?*

  We haven't figured that out yet.

5. *MARKETING ISSUES*
   - *What is the marketing plan to promote IE4 and the included content providers?*
   - *What kinds of co-promotions with content providers is Microsoft planning?*

  We're going to have a major launch event and really highlight our partners. When we launched IE3, for instance, we never really demoed the browser. Instead, it was "look at the cool sports from ESPN and the news from the Wall Street Journal." I expect that this time will be pretty much the same.

  We're planning to run a lot of launhc ads online and in traditional print. We're also planning to run dual ads that feature IE4 and a single ICP. The idea is to have each ICP approve an ad, and then MS will figure out how to run them in a way that gives everyone equal treatment. The key to remember is that it's equal treatment in a category, and there can't be perfect parity. If we somthing in a sports magazine, for instance, we probably wouldn't include cnet. Also, if we do Buntings Window, we can't include all 25 ICPs. For IE3, we promoted everyone in every ad. With IE4, we're gong to be more category-focused.

  We're not planning to do TV. We don't really do TV at a product level. We may feature someone in an ad, but it's realyl a freebie. I usually get called at the last minute.

- *What is the timing for any press announcements/events?*

  We'll most likely announce the default ICP relationships when they're done, and given that the public will see them at the end of June in the Beta, we'll probably announce them right before the beta, or as part of the beta. So you're looking at June 30th or so.

[I asked her how the ICP negotiations were being handled.] It's pretty much me and Brad. Brad works for Brad Silverberg, and usually when there's an issue we can't resolve it would go up the chain. but with the big ICP deals, it usually jumps directly to Bill Gates.

[I asked her to summarize the prospects for Snap! and IE4] "Maybe for Snap! there's some kind of trade. In the ISP relationships, maybe we give you an advantage. With AT&T for instance,our rep will go in there and say, 'here, you AT&T can change this channel within this package I'm offering. But if you don't like that, another alternative is to go with Snap! where you can customize it much more and brand it as well.' Now I need to point out that this is just my idea, and Brad and I don't control all of the necessary groups to sign off on this approach, but it's an interesting idea.

"The bottom line is that the default channels can't change. The horse has left the barn.

We're so constrained at this point. Even if we potentially could make Snap! a channel, that may not be enough for Snap! and maybe we can't even do it anyway. I think the key for Snap! is maybe something we work out with the ISPs. Maybe there's something we can do to help take the risk out of starting up Snap!, and throw that risk reduction into the whole deal."