**From:** Ken Whitaker (LCA) [kenwh@microsoft.com]
**Sent:** Tuesday, February 03, 1998 3:41 PM
**To:** Bill Koszewski; Will Poole; Lora Shiner
**Cc:** Andrea Scott (LCA); Ken Whitaker (LCA)
**Subject:** RE: IE Re-Branding

- Privileged Material Redacted -

> ----Original Message----
> From: Bill Koszewski
> Sent: Tuesday, February 03, 1998 3:17 PM
> To: Will Poole; Lora Shiner
> Cc: Ken Whitaker (LCA)
> Subject: Re: IE Re-Branding
>
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>
> - Privileged Material Redacted -
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>
> -----Original Message-----
> From: Will Poole < wpoole@microsoft.com
> <mailto:wpoole@microsoft.com>>
> To: Bill Koszewski < billk@MICROSOFT.com
> <mailto:billk@MICROSOFT.com>>; Lora Shiner < loras@MICROSOFT.com
> <mailto:loras@MICROSOFT.com>>
> Cc: Ken Whitaker (LCA) < kenwh@microsoft.com
> <mailto:kenwh@microsoft.com>>
> Date: Tuesday, February 03, 1998 2:46 PM
> Subject: RE: IE Re-Branding
>
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> - Privileged Material Redacted -
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>
> Bill, I assume you will drive?
>
> ----Original Message----
> From: Ken Whitaker (LCA)
> Sent: Tuesday, February 03, 1998 2:17 PM
> To: Bill Koszewski; Will Poole; Michael Bernard (Internet)
> Cc: Tracey Kruger; Brian Gluth; Andrea Scott (LCA); Maggie
> Waggoner (LCA); Ken Whitaker (LCA); Yusuf Mehdi; David Cole; Daniel
> Laster (LCA); Brad Chase; Keme Green (Woods LCA)
>
> Subject: RE: IE Re-Branding
>
>
>
> - Privileged Material Redacted -
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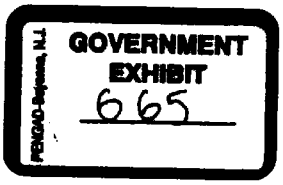
>

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> - Privileged Material Redacted -
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>
> ----Original Message----
> From: Bill Koszewski
> Sent: Tuesday, February 03, 1998 12:01 PM
> To: Will Poole; Michael Bernard (Internet); Ken
> Whitaker (LCA)
> Cc: IE End User Marketing Team; Will Poole's Direct
> Reports; Brian Gluth
> Subject: Re: IE Re-Branding
>
> The idea with IE4 was to not grant any new
> rights to change the logo and to limit changes to the product name in
> the title bar. Existing rights to change the static/spinning logo
> were grandfathered in for Referral Server ISPs and some others. This
> decision was made back in summer '97 and we knew it would cause pain.
> We decided that causing customers some pain was an acceptable tradeoff
> vs. protecting our trademark rights.
>
>
> However the game is different today.
>
> * All major OEMs have efforts underway to control and brand the
> Internet experience end-to-end. Gateway has their own ISP, HP ships
> their own HP-branded browser (developed by Encompass, based on IE)
> with branded GTE access, and Compaq is on their way to negotiating an
> end-to-end signup deal for Compaq internet access and portal for
> Presarios. Gaining and maintaining control of the user's Internet
> experience motivates these discussions.
>
>
> * OEMs don't mess with Windows, though. If the browser window
> appears as just another OS window, OEMs won't mess with this.
> However, if the user invokes the browser window and sees a specific
> brand associated with the browser functionality, they'll immediately
> want to control it.
> * The key thought here is that OEMs want to brand the Internet
> Access function This is where they see themselves adding value in
> the future.
>
>
> * All major ISPs highlight brand as one of the key pieces of value
> they derive from a browser, and changing the branding and default
> content is the first thing they ask for. Witness the contentious
> negotiations over channels and branding in IE4; ISPs wouldn't fight
> that hard if it wasn't important.
>
>
> Based on my research and understanding of the
> ISP market, I'd stack rank their browser desires this way:
>
> * Simple, easy to support.
> * Customizable -- easy to brand and configure to their specs.
> * Small, easy to distribute.
> * Cross-platform.
>
>
> The more branding we want back, the longer and
> harder this fight becomes. We are not going to make any friends in
> the ISP space if we push this to the limit. It is the wrong fight to
> pick if we really want share Netscape has a huge, huge selling point
> with flexible branding, any ISP will sit down and listen to them about
> this. Even though it weakens their trademark position.
>
> -----Original Message-----
> From: Will Poole < wpoole@microsoft.com <

> <mailto:wpoole@microsoft.com>>>
> To: Michael Bernard (Internet) < mbernard@microsoft.com
> < <mailto:mbernard@microsoft.com>>>; Ken Whitaker (LCA) <
> kenwh@microsoft.com < <mailto:kenwh@microsoft.com>>>; Bill Koszewski <
> billk@MICROSOFT.com < <mailto:billk@MICROSOFT.com>>>
> Cc: IE End User Marketing Team < ieeu@microsoft.com <
> <mailto:ieeu@microsoft.com>>>; Will Poole's Direct Reports <
> ibdsdir@microsoft.com < <mailto:ibdsdir@microsoft.com>>>
> Date: Tuesday, February 03, 1998 10:28 AM
> Subject: RE: IE Re-Branding
>
>
>
> There was significant discussion on what's ok
> and what's not ok to give away on the branding front -- BillK can give
> details. Our problem is more complex in that IE is integral to the
> windows experience. Having others insinuate their brand into that
> experience is not a good thing for us to do long term. I think it is
> unlikely that OEMs or others will select Nav over IE just b/c they can
> stick a bigger/better logo on it.
>
> -----Original Message-----
> From: Michael Bernard (Internet)
> Sent: Tuesday, February 03, 1998 10:15 AM
> To: IE End User Marketing Team; Will Poole's
> Direct Reports
> Subject: IE Re-Branding
>
> Related to this comment from the
> analyst report below:
>
>
> Rebranding
>
> We remain very excited about the ability of OEMs
> and customers to rebrand the [Netscape]
> browser. This could become a significant
> strategic advantage for Netscape
> because Microsoft only allows the rebranding of
> the IE embedded control. This
> control is embedded inside another application,
> such as Lotus Notes, and for
> all intents and purposes, it appears to be part
> of the overall product. But
> Microsoft does not allow the total IE product to
> be rebranded. Netscape could
> use this as a wedge to gain access to OEMs.
> Microsoft intends to fully
> integrate IE into Windows98 to such an extent
> that Windows and IE become
> indistinguishable. If this is the case, we
> don't know how they will allow
> rebranding if Netscape is
> successful.
>
> I know that we decided to not
> let 3rd parties brand the animated logo. Is it possible for us to
> provide more branding opportunities, but just require that the
> "Powered by IE" logo stay on the top menu bar, similar to the AOL
> browser? I don't know all of the issues related to the decision to not
> allow significant re-branding, but I'm curious if we considered this
> option. I know that we keep getting 3rd parties asking for more.
>
> Michael Bernard
> Product Manager, Microsoft
> Internet Explorer Promotions
> MBernard@Microsoft.com
>
> -----Original Message-----
> From: Lora Shiner
> Sent: Tuesday, February 03, 1998 8:54 AM
> To: IE End User Marketing Team

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> Subject: FW: Yusuf, you turned Bruce
> Smith around...
>
>
>
> ----Original Message----
> From: Tony Dirksen
> Sent: Tuesday, February 03, 1998 8:23 AM
> To: Lora Shiner
> Subject: FW: Yusuf, you turned Bruce
> Smith around...
>
> Since Yusuf is out, I'll pass
> this to you, too...
>
> ----Original Message----
> From: Tony Dirksen
> Sent: Tuesday, February 03, 1998 8:22 AM
> To: Yusuf Mehdi; Brad Chase; Tod Nielsen
> Cc: Vaughan Briggs; Carla Lewis; Tim
> Halladay; Erika Shaffer
> Subject: Yusuf, you turned Bruce Smith
> around...
>
> Latest report from Bruce; note
> paragraph highlighted in red...after our conversation with him, he's
> rethought his "army of developers" boast...
>
> ML++ML++ML Merrill Lynch
> Global Securities Research ML++ML++ML
> NETSCAPE COMMUNICATIONS
> CORP. (NSCP/OTC)
> Critical
> Juncture
> Bruce D. Smith (1) 212
> 449-0923
>
>
>
> NEUTRAL
>
> Long
> Term
>
>
> NEUTRAL
>
> Reason for Report: Fourth Quarter
> Report
> Price:
> $16 1/16
>
>
>
> Estimates (Dec)
> 1997A 1998E 1999E
> EPS:
> $0.05 -0.20 $0.14
> P/E:
> 321.3x NM 114.7x
> EPS Change
> (YoY): NM NM
> Consensus
> EPS: $0.01 NA
> (First Call:
> 26-Jan-98)
> Q1 EPS (Mar):
> $0.09 -0.14
> Cash Flow/Share:
> NA NA NA
> Price/Cash Flow:

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> NM NM NM
>
> Nil Nil Nil
>
> Nil Nil Nil
>
> Data
>
> D-3-3-9
>
> $1,548.4 / 96.4
>
> $4.45
>
> 3.6x
>
> 0.0%
>
> 35.0%
>
>
>
> Data
>
> $49 1/2-$14 7/8
>
> NSCP / OTC
>
> Chicago
>
> 31.6%
>
> 13
>
>
>
> Ratings**
>
> Mkt.:
>
> Underweight (07-Mar-95)
>
> Overweight (07-Mar-95)
>
> Overweight (07-Mar-95)
>
> Overweight (28-May-93)
>
>
>
> Average (29-Dec-97)
>
>
>
> department and do not necessarily
> analyst.
> footnotes.
>
>
>
> Highlights:
> Netscape.
> critical.

Dividend Rate

Dividend Yield:

Opinion & Financial

Investment Opinion:

Mkt. Value / Shares Outstanding (mn):

Book Value/Share (Dec-97).

Price/Book Ratio.

LT Liability % of Capital:

Est. 5 Year EPS Growth:

Stock

52-Week Range:

Symbol / Exchange:

Options:

Institutional Ownership-Spectrum:

Brokers Covering (First Call):

ML Industry Weightings &

Strategy; Weighting Rel. to

Income:

Growth:

Income & Growth:

Capital Appreciation:

Market Analysis; Technical Rating:

**The views expressed are those of the macro
coincide with those of the Fundamental

For full investment opinion definitions, see

Investment

- o We remain very cautious on
- o The next 3 quarter will be

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>
>
>
> Fundamental
> Highlights:
> o Q4 slightly worse than
> pre-release
> o New estimate for 1998 is now $513 million
> and a loss of ($0.20).
> o Netscape success has broad implications for
> industry
>
>
>
> Critical
> Juncture
> Netscape reported fourth quarter results that
> were slightly worse than the
> company indicated in their release of
> preliminary Q4 results on January 5th.
> Revenues came in at $125 million vs. the
> reported range of $125-$130 million
> with a loss per share of ($0.22) vs. a range of
> ($0.15 - $0.19). The company
> stated that the major reason for the slight
> shortfall was the need to adjust
> contracts due to the decision to give away their
> client software. The company
> also stated that the $35 million restructuring
> charge, originally expected in
> Q4, would now be split with $12 million now
> falling in Q1. This is due to the
> delay in headcount reduction which did not take
> place until the first quarter.
>
>
>
> After Further
> Review...
> We have had extensive conversations with the
> development and corporate
> community since Netscape's decision to license
> its source code free of charge.
> Our initial reaction was that this was a major
> positive strategic move. We
> felt that Netscape would gain access to an army
> of unpaid developers, and with
> the success of the Apache Web Server, we felt
> that this could mitigate
> Microsoft's enormous resource advantage. After
> our recent discussions though,
> we are not as confident as we were originally.
> The major issue is this, will
> Netscape be able to maintain a quality product
> with so many uncontrolled
> developers. There is skepticism about
> Netscape's ability to successfully
> police this development and prevent the entire
> market from fragmenting. If the
> market does fragment it would be very good for
> Microsoft because the Internet
> Explorer platform would be a very stable
> alternative.
>
>
>
>
> Rebranding
>
> We remain very excited about the ability of OEMs
> and customers to rebrand the
> browser. This could become a significant

> strategic advantage for Netscape
> because Microsoft only allows the rebranding of
> the IE embedded control. This
> control is embedded inside another application,
> such as Lotus Notes, and for
> all intents and purposes, it appears to be part
> of the overall product. But
> Microsoft does not allow the total IE product to
> be rebranded. Netscape could
> use this as a wedge to gain access to OEMs.
> Microsoft intends to fully
> integrate IE into Windows98 to such an extent
> that Windows and IE become
> indistinguishable. If this is the case, we
> don't know how they will allow
> rebranding if Netscape is
> successful.
>
>
>
> Free Could
> Help
> Netscape's decisions to give away its client
> software could stem its decline in
> market share. We believe that Netscape's market
> share is hovering in the mid
> 50s with Microsoft in the low 40s, with
> Microsoft having the momentum. We
> believe Netscape's success hinges on their
> ability to hold market share.
> Netscape is making a significant push into the
> eCommerce space with the recent
> purchases of Actra and Kiva. We believe that
> this push will benefitial if
> Netscape is successful in the browser
> space.
>
>
>
> We still do not believe that Netscape will be
> anything more than a small niche
> player in the messaging and groupware space.
> This market has quickly
> consolidated around two vendors, Lotus/IBM and
> Microsoft. In fact, Netscape's
> free client will do nothing in this space
> because they continue to charge
> Client Access Licenses or CALs that in some
> cases could make them more
> expensive that Microsoft and
> Lotus.
>
>
>
> Implications for the
> Industry
> We have maintained for a while that Netscape's
> success or lack there of, has
> broad implications for the entire industry.
> Netscape has acted as a strong
> counterweight to Microsoft in the computer
> industry. Netscape's success has
> brought Microsoft to the open standards arena
> and the success of Navigator has
> forced Microsoft to support technologies such as
> Java. If Microsoft is
> successful in gaining dominant market share in
> browsers, we feel that it will
> have a significant impact on how Microsoft acts
> in the future. Microsoft is
> already leading the charge in the evolution of
> many Web standards such as XML

> and we believe that the degree of openness could
> change if Microsoft prevails.
> We even believe that Sun's Java initiative could
> falter under this scenario,
> although Steve Milunovich, our Sun Microsystems
> analyst, has maintained for
> quite some time that Sun's Java opportunity lies
> in the embedded system market
> and is not dependent on the
> desktop.
>
>
>
> New
> Estimate
>
> We have established new estimates for Netscape.
> For 1998 we are at $513
> million in revenue with a loss of ($0.20). Our
> 1999 estimates are $690 million
> and $0.14. We believe we are low on the street
> with these estimates.
>
>
>
>