CONFIDENTIAL MEMORANDUM

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To: Distribution

From: Ray Solnik

Re: Project Mercury Quantitative Analysis

Date: August 26, 1996 No. of Pages: 14

As we discussed, I am circulating this preliminary analysis of the Mercury economics with an emphasis on the subscriber acquisition channels. Any comments are welcome. Back up is attached.

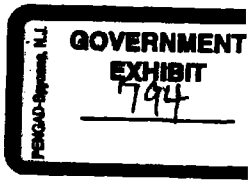
Summary

1. The expected number of subscribers from either the Microsoft or Netscape channels is approximately 20,000 to 40,000 subscribers per RBOC through the end of calendar year '97.
2. There is a high degree of variance depending on model assumptions (3,000 subscribers for a downside case to hundreds of thousands upside).
3. The Microsoft deal significantly outpaces the Netscape deal strictly on distribution of the Windows OS vs. the Netscape OEM deal (25,000 vs. 7,500).
4. The overall Netscape deal including retail distribution of PE and online channels outpaces the Microsoft deal by 13,000 subscribers (40,037 vs. 26,745). This includes an assumption of 26,000 subscribers from Netscape's retail channel.
5. The Netscape deal has two additional acquisition mechanisms (Website Advertising and "Click and Switch") to spread the risk of any one source of subscribers not working.
6. Cost savings associated with a free browser amount to almost $1 million between Q4 '96 through Q4 97 (assumes 220,000 subscribers, $12 opportunity cost per browser).

Issues

Some key issues when thinking about this analysis are as follows:

1. Will Microsoft somehow implement a set up program in Win '95 that present some kind of splash screen or equivalent that entirely upstages the Netscape desktop OEM icon / referral server?
2. What will be the impact of how Microsoft implements the referral server: 3 phonebooks (MSN, Internet OLS), preference, number of ISPs included, retail IE bundle with one preferred ISP (MCI?) ?
3. Can Netscape pull off what they are committing to -- especially retail?
4. What are reasonable activation rates for each channel?



(One more page of summary)

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Table I - Analysis Summary For A Typical RBOC *

Sensitivity Case: (Subscribers Q4 '96 through Q4 '97)	Downside	Base	Upside	
Microsoft Phonebook - OEM and Retail W'95	3,493	25,193	217,669	
Microsoft Retail	NA	NA	NA	
Microsoft IE Downloads	37	1,552	17,700	
Microsoft Total	3,530	26,745	235,369	
Netscape OEM Phonebook	722	7,530	223,645	
Netscape Retail	1,349	26,011	118,374	
Netscape Web PE Downloads	-	3,386	55,312	
Netscape Advertising	1,244	3,110	6,220	
Netscape "Click and Switch"	-	-	-	**
Netscape Total	3,372	40,037	403,551	
Microsoft - Netscape	158	(13,292)	(168,182)	

** Either assume these are upside or they are included in the PE Downloads Deal

Key Sensivities: (Subscribers Q4 '96 through Q4 '97)	Impact on Base Case: Microsoft	Netscape
Reduce Number of ISPs by one in the referral server	5,349	8,386
Decrease Activation Rate For Netscape Retail From 25% to 15%	NA	(10,404)

* Base case assumes a 20% market share.

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Attachments

A. Summary
B. Sensitivity Analysis Table 1 - Assumptions Inputs
C. Sensitivity Analysis Table 2 - By Input Variable
D. Acquisition Channel Analysis - Forecasts and underlying assumptions
   Base Case, Downside Case, Upside Case
E. Consumer Behavior Distributions
F. OEM PC Shipments - Netscape Software Deals List
G. Browser Cost Savings Analysis - Preliminary

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Distribution

Ameritech	Greg Buck	312-526-8245
Bell Atlantic	Bob Beran	703-708-4409
	Bill Heilig	703-708-4253
	Myles Mendelsohn	703-708-4409
BellSouth net	John Robinson	404-685-8005
	Jim McClintock	404-249-4740
	Charles Meyers	770-392-4360
Southwestern Bell Internet Services	Bob Casali	214-238-3625
	Cindy Browne	210-351-2771
Pacific Bell Internet Services	Rick Hronicek	415-442-4997
	Mark Fisher	415-442-4997

cc

Blanc Williams Johnston and Kronstadt, LLP	Sam Mandel	310-552-1191

↓ . Total volume 500K units 1.5 m → 34853 (5654)

. OEM - Metal [illegible] → 15mm 3,765

- 1 Dun [illegible] 7530

- [illegible] Dun [illegible] 65934 25937

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Project Mercury Quantitative Analysis
Summary

Sensitivity Case:	Downside	Base	Upside
Microsoft Phonebook - OEM and Retail W'95	3,493	25,193	217,669
Microsoft IE Retail	NA	NA	NA
Microsoft IE Downloads	37	1,552	17,700
Microsoft Total	3,530	26,745	235,369
Netscape OEM Phonebook	722	7,530	223,645
Netscape Retail	1,349	26,011	118,374
Netscape Web PE Downloads	57	3,386	55,312
Netscape Web Advertising	1,244	3,110	6,220
Netscape "Click and Switch"	-	-	-
Netscape Total	3,372	40,037	403,551
Microsoft - Netscape	158	(13,292)	(168,182)

* Either assume these are upside or they are included in the PE Downloads Deal

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Project Mercury Quantitative Analysis
Sensitivity Analysis Table 1

Sensitivity Case:	Downside	Base	Upside
Microsoft			
PHONEBOOK			
Microsoft W95 1997 Shipments (000)	50,000	60,000	80,000
Microsoft W3.1x 1997 Shipments (000)	1,045	2,090	4,181
Win 3.1x '96-'97 Growth Rate	95%	90%	80%
Percent Domestic	30%	40%	50%
Domestic Corporate	17%	22%	20%
Domestic Consumer	13%	18%	30%
Percent of Consumers Who Click Internet Icon	21.7%	27.1%	48.8%
Multiplier	20%	0%	80%
Percent of Consumers Who Register	26.0%	32.5%	39.0%
Multiplier	20%	0%	20%
Percent of Consumers Who Remain Qualified Subscribers	49.8%	62.2%	74.6%
Multiplier	-20%	0%	20%
Percent to Select RBOC Sub Hosting			
Percent Of National Users to Select RBOC	1.5%	3.0%	5.0%
RBOC Share of National Market	15%	20%	25%
Number of Providers in Phonebook	10	6	5
RBOC share of phonebook space	10.0%	16.7%	20.0%
Net % of Domestic Consumers Who Become Qualified Subs	0.042%	0.183%	0.710%
IE DOWNLOADS			
Downloads - Daily	49,000	70,000	77,000
Downloads - Annual	17,885,000	25,550,000	28,105,000
% Downloads that are Consumers	40.0%	50.0%	60.0%
Domestic Download percent	43.8%	62.5%	75.0%
% Downloaded NOT onto a LAN	5.0%	15.0%	30.0%
Eligible IE Annual Downloads	156,494	1,197,656	3,794,175
Activation Rate	2.5%	5.0%	10.0%
Percent of Activations That Remain Qualified Subscribers	49.8%	62.2%	74.6%
	20.0%	0.0%	20.0%
Percent Of National Users to Select RBOC	1.5%	3.0%	5.0%

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Project Mercury Quantitative Analysis

Sensitivity Analysis Table 1

Sensitivity Case:	Downside	Base	Upside
Netscape			
OEM DEAL			
OEM Shipments	8,000,000	10,000,000	16,000,000
Percent Domestic	30%	40%	80%
Domestic Corporate	17%	22%	20%
Domestic Consumer	13%	18%	60%
Percent of Consumers Who Click Internet Icon	21.7%	27.1%	48.8%
Microsoft Multiplier for Icon Click	-20%	0%	80%
Percent of Consumers Who Register	26.0%	32.5%	39.0%
Multiplier	20%	0%	20%
Percent of Consumers Who Remain Qualified Subscribers	49.8%	62.2%	74.6%
Multiplier	-20%	0%	20%
Percent to Select RBOC Sub Routine			
Percent Of National Users to Select RBOC	2.4%	7.3%	15.6%
RBOC Share of National Market	15%	20%	25%
Number of Providers in Phonebook	7	5.5	4
RBOC share of phonebook space	16%	36%	63%
Multiplier for preference, branding	10%	100%	150%
Net % of Domestic Consumers Who Become Qualified Subs	0.066%	0.398%	2.219%
RETAIL BUNDLE DEAL			
Shipment Volume 1996	150,000	300,000	400,000
Shipment Volume 1997	1,000,000	2,000,000	2,500,000
Activation Rate	10.0%	25.0%	35.0%
Percent of Activations That Remain Qualified Subscribers	49.8%	62.2%	74.6%
	-20%	0%	20%
Percent Of National Users to Select RBOC	2.4%	7.3%	15.6%
PE DOWNLOADS DEAL			
Current LAN Version downloads - Daily	49,000	70,000	77,000
Current LAN Version downloads - Annual	17,885,000	25,550,000	28,105,000
% Downloads that are Consumers	40.0%	50.0%	60.0%
Domestic Download Percent	43.8%	62.5%	75.0%
Personal Edition Download Estimate (% of LAN Version)	5.0%	15.0%	30.0%
PE Annual Downloads	156,494	1,197,656	3,794,175
Activation Rate	2.5%	5.0%	10.0%
Percent of Activations That Remain Qualified Subscribers	49.8%	62.2%	74.6%

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Project Mercury Quantitative Analysis

Sensitivity Analysis Table 1

Sensitivity Case:	Downside	Base	Upside
Percent Of National Users In Select RBOC	2.4%	7.3%	15.6%
ADVERTISING			
Contractual Advertising Commitment ($000)	2,500	2,500	2,500
Target Acquisition Cost Per Subscriber	$ 150.00	$ 100.00	$ 75.00
Total Subscribers	16,667	25,000	33,333
RBOC Share of National Market	15%	20%	25%
Percent of Consumers Who Remain Qualified Subscribers	50%	62%	75%
RBOC Qualified Subscribers	1,244	3,110	6,220

CLICK AND SWITCH DEAL

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Project Mercury Quantitative Analysis

Sensitivity Analysis Table 1

Sensitivity Case	Comments
Microsoft	
PHONEBOOK	
Microsoft W95 1997 Shipments (000)	Base case from DQuest, Upside is 3x downside variance
Microsoft W3.1x 1997 Shipments (000)	Derived from model
Win 3.1x '96-'97 Growth Rate	
Percent Domestic	Industry average for PCs is 40%, Microsoft claims their domestic percentage is 50%
Domestic Corporate	Microsoft claims 80% of their customers are consumers (as does Netscape)
Domestic Consumer	
Percent of Consumers Who Click Internet Icon	Derived from Consumer Behavior Sheet
Multiplier	
Percent of Consumers Who Register	
Multiplier	
Percent of Consumers Who Remain Qualified Subscribers	
Multiplier	
Percent to Select RBOC Sub Routine	
Percent Of National Users to Select RBOC	
RBOC Share of National Market	Plugs (e.g., for PBL 22.5% of Netscape hits are from the Pacific Region)
Number of Providers in Phonebook	Plugs
RBOC share of phonebook space	Calculation based on proportion of number of ISPs in the phonebook
Net # of Domestic Consumers Who Become Qualified Subs	
IE DOWNLOADS	
Downloads - Daily	Microsoft claims 1 million downloads in about the first ten days since launch, reduce by 30% for base case due to launch blip. 10% upside, 30% downside
Downloads - Annual	Calculation
% Downloads that are Consumers	No data currently available
Domestic Download percent	Netscape claims 62.5% of hits are domestic, used same assumption for Microsoft, 20% on the upside, 30% on the downside
% Downloaded NOT onto a LAN	This assumption is used to normalize the analysis compared to Netscape, probably a bit biased towards Netscape since IE only runs on W95 right now
Eligible IE Annual Downloads	
Activation Rate	Netscape suggests 25% for retail deal, 100% upside, 50% downside
Percent of Activations That Become Qualified Subscribers	Same as Phonebook and same as Netscape
Percent Of National Users to Select RBOC	Same as phonebook

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Project Mercury Quantitative Analysis

Sensitivity Analysis Table 1

Sensitivity Case:	Comments
Netscape	
OEM DEAL	
OEM Shipments	Upside is 3x downside variance
Percent Domestic	Netscape claims 90% domestic
Domestic Corporate	Netscape claims 80% of bundles are consumer (BillWhite, 8/20/96)
Domestic Consumer	Netscape claims 80% of bundles are consumer (BillWhite, 8/20/96)
Percent of Consumers Who Click Internet Icon	Same as Microsoft
Microsoft Multiplier for Icon Click	Plug
Percent of Consumers Who Register	Same as Microsoft
Multiplier	
Percent of Consumers Who Remain Qualified Subscribers	Same as Microsoft, Netscape claims 90% stay on for 60 days
Multiplier	
Percent to Select RBOC Sub Routine	
Percent Of National Users to Select RBOC	Calculation
RBOC Share of National Market	Same as Microsoft
Number of Providers in Phonebook	
RBOC share of phonebook space	This takes into account preference, branding
Multiplier for preference, branding	Preference, branding multiplier
Net Trial Domestic Consumers Who Become Qualified Subs	
RETAIL BUNDLE DEAL	
Shipment Volume 1996	Plug
Shipment Volume 1997	Plug
Activation Rate	Netscape suggests a 25% rate
Percent of Activations That Become Qualified Subscribers	90 days payout customers, same as OEM deal
Percent Of National Users to Select RBOC	Same as OEM deal
PE DOWNLOADS DEAL	
Current LAN Version downloads - Daily	10% on the upside, 30% on the downside - same as Microsoft
Current LAN Version downloads - Annual	
% Downloads that are Consumers	No data currently available, same as Microsoft
Domestic Download Percent	Netscape claims 62.5% of hits are domestic, used same assumption for Microsoft, 20% upside, 30% downside
Personal Edition Download Estimate (% of LAN Version)	Assume all consumer, Netscape suggests 30%
PE Annual Downloads	
Activation Rate	Netscape suggests 25% for retail deal, 100% upside, 50% downside, same as Microsoft
Percent of Activations That Remain Qualified Subscribers	Same as OEM deal, Netscape suggest 90% remain for 60 days

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Project Mercury Quantitative Analysis

Sensitivity Analysis Table 1

Sensitivity Case:	Comments
Percent Of National Users to Select RBOC	Same as OEM deal
ADVERTISING	
Contractual Advertising Commitment ($000)	This value does not take into account any discounts off the rate card
Target Acquisition Cost Per Subscriber	This value excludes bounties, pusposefull conservative estimates
Total Subscribers	
RBOC Share of National Market	Same assumptions as OEM deal
Percent of Consumers Who Remain Qualified Subscribers	Same assumptions as OEM deal
RBOC Qualified Subscribers	
CLICK AND SWITCH DEAL	Either assume these are upside or they are included in the PE Downloads Deal

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Project Mercury Quantitative Analysis

Sensitivity Analysis Table 2

Impact of a 10% variance of the input variable on total subscribers:

Other Assumptions
Base Case

Sensitivity Case:	Total Subscribers	Variance	Comments
Microsoft			
Base	26,745	NA	
Microsoft W95 1997 Shipments (000)	29,265	9.4%	10.0% impact on just W'95 Deal subscribers
Microsoft W.3.1x 1997 Shipments (000)	NA	NA	
Win 3.1x '96-'97 Growth Rate	NA	NA	
Percent Domestic	NA	NA	
Domestic Corporate	NA	NA	
Domestic Consumer	29,265	9.4%	
Percent of Consumers Who Click Internet	29,265	9.4%	
Percent of Consumers Who Register	29,265	9.4%	
Percent of Consumers Who Remain Qualified	29,265	9.4%	10% impact on just W'95 Deal subscribers
Percent to Select RBOC Sub Routine			
Percent Of National Users to Select RBOC	29,265	9.4%	
RBOC Share of National Market	29,265	9.4%	
Number of Providers in Phonebook	29,265	9.4%	
RBOC share of phonebook space	29,517	11.1	11.1% impact on just W'95 Deal subscribers
Net % of Domestic Consumers Who Recon	NA	NA	
Netscape	40,037	NA	
OEM DEAL			
OEM Shipments - 1997	40,790	1.9%	10% impact on just OEM subscribers
Percent Domestic	NA	NA	
Domestic Corporate	NA	NA	
Domestic Consumer			
Percent of Consumers Who Click Internet Icon			
Percent of Consumers Who Register			
Percent of Consumers Who Remain Qualified Subscribers			

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Project Mercury Quantitative Analysis

Sensitivity Analysis Table 2

Impact of a 10% variance of the input variable on total subscribers:

Other Assumptions
Base Case

Sensitivity Case:	Total Subscribers	Variance	Comments
Percent to Select RBOC Sub Routine			
Percent Of National Users to Select RBOC			
RBOC Share of National Market	43,730	9.2%	10% impact on just OEM subscribers
Number of Providers in Phonebook	44,140	10.2%	11.1% Note: This value flows through all channels
RBOC share of phonebook space			
Net % of Domestic Consumers Who Become Qualified Subs			
RETAIL BUNDLE DEAL			
Shipment Volume 1996			
Shipment Volume 1997	42,299	5.6%	8.7% impact on just Retail subscribers (not a full 10% due to '96 impact)
Activation Rate	42,638	6.7%	10.0% impact on just Retail subscribers
Percent of Activations That Remain Qualified Subscribers			
PE DOWNLOADS DEAL			
Current LAN Version downloads - Daily			
Current LAN Version downloads - Annual			
% Downloads that are Consumers			
Domestic Download Percent			
Personal Edition Download Estimate (% of LAN Version)			
PE Annual Downloads			
Activation Rate	40,376	0.8%	10% impact on just Download subscribers
Percent of Activations That Remain Qualified Subscribers			
ADVERTISING			
Contractual Advertising Commitment ($000)	40,348	0.8%	10% impact on just Advertising subscribers
Target Acquisition Cost Per Subscriber	40,381	0.9%	11% impact on just Advertising subscribers
Total Subscribers			
RBOC Share of National Market			
Percent of Consumers Who Become Qualified Subscribers			
RBOC Qualified Subscribers			
CLICK AND SWITCH DEAL			

Project Mercury Quantitative Analysis

Acquisition Channel Analysis

Case: Base **Case: Base**

Microsoft Vs. Netscape

Microsoft Total Qualified Subscribers	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	Total	Total	Total	Comments
	NA	NA	NA	5,782	3,526	4,453	5,495	7,490	5,782	20,963	26,745	
Netscape Total Qualified Subscribers	NA	NA	NA	4,429	5,640	7,865	10,212	13,653	4,429	37,870	42,299	
Variance	NA	NA	NA	1,353	(2,115)	(3,412)	(5,217)	(6,163)	1,353	(16,907)	(15,554)	

Microsoft Forecast

Microsoft	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	1996 Total	1997 Total	Overall Total	Comments
Phonebook - OEM and Retail Win95												
Worldwide Win Shipments (mm)	7.455	9.605	12.020	16.648	9.782	12.603	15.772	21.842	45.726	60.000	105.726	96 # s from Dquest 8/16/96 apply seasonality from 96 to 97
Worldwide Win Shipments (mm)	2.298	5.166	4.231	1.206	.780	.567	.423	.321	20.903	2.090	22.993	96 # s from Dquest 8/16/96
												Decrease from 95 (39.666) to 96 (20.902)per DQuest # s was 47%
% Domestic Consumer	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%				
Net % of Dom. Consumers Who Become Qualified Subs	0.183%	0.183%	0.183%	0.183%	0.183%	0.183%	0.183%	0.183%				Does not take into account 90 day lag time to become qualified sub
Net Number of Qualified Subscribers - Win95	NA	NA	NA	5,471	1,215	4,143	5,184	7,179	5,471	19,722	25,193	
IE Downloads (mm)				6.388	6.388	6.388	6.388	6.388	6.388	25.550	31.938	
% Consumer				50.0%	50.0%	50.0%	50.0%	50.0%				
% Domestic				62.5%	62.5%	62.5%	62.5%	62.5%				
% Downloaded NOT Counted (AV)				15.0%	15.0%	15.0%	15.0%	15.0%				
Eligible IE Downloads				299	299	299	299	299	299	1,198	1,497	
Activation Rate				5.0%	5.0%	5.0%	5.0%	5.0%				
Percent Activations That Become Qualified Subscribers				62.2%	62.2%	62.2%	62.2%	62.2%				
Percent of National Users to Select RBOC				3.3%	3.3%	3.3%	3.3%	3.3%				
Net Number of Qualified Subscribers - IE Downloads				310	310	310	310	310	1,242	1,552		
Microsoft Acquisition Grand Total				5,782	3,526	4,453	5,495	7,490	5,782	20,963	26,745	

Microsoft Supporting Assumptions

Phonebook Deal	Sensitivity Analysis Multiplier	Model Value	Comments
Microsoft W95 OEM Shipments (mm)	0%	60.000	31% Growth From 96
Microsoft Win 3.1 OEM Shipments (mm)	0%	2.090	70% Growth From 96 DQuest 95 to 96 numbers was 47%
Percent Domestic	0%	40%	Based on H&Q Institutional Research 4/96 PC Shipments MS claims 50%
Domestic Corporate	0%	72%	North America
Domestic Consumer	0%	28%	North America MS claims 80% of domestic is consumer
Percent of Consumers Who Click Internet Icon	0%	72.0%	Doc assumes one other Online Service icon (not MSN) on Navigator
Percent to Select RBOC	0%	3.3%	See sub routine below
Percent of Consumers Who Register	0%	32.5%	
Percent of Consumers Who Become Qualified Subscribers	0%	62.2%	Includes Lycos conversions
Net % of Domestic Consumers Who Become Qualified Subs	NA	0.183%	
Percent to Select RBOC Sub Routine			
Percent Of National Users to Select RBOC	NA	3.3%	The calculation assumes the RBOC gets a pro-rata share of registrants directly proportionate to the number of ISPs in the book
RBOC Share of National Market	0%	20%	
Number of Providers in the Phonebook	0%	6.0	
Percent of Phonebook Space	0%	16.7%	Based on proportion of number of ISPs in the phonebook
IE Downloads			
Downloads - Daily	0%	70,000	
Downloads - Annual	0%	25,550,000	
% Downloads that are Consumers	0%	50.0%	
Domestic Download percent	0%	62.5%	
% Downloaded NOT Counted (AV)	0%	15.0%	
Eligible IE Annual Downloads	0%	11,977,031	
Activation Rate	0%	5.0%	
Percent Activations That Become Qualified Subscribers	0%	62.2%	
Percent of National Users to Select RBOC	0%	3.3%	Same as Phonebook

Additional variables to consider.

- Marketing/evangelism/selling programs which can influence the conquest that is more aggressive/interest
- Degree to which Microsoft provides preferences to the RBOC vs. the phonebook

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Project Mercury Quantitative Analysis

Acquisition Channel Analysis

Case: Base **Case: Base**

Netscape Forecast	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	Total	Total	Total	Comments
Netscape												
OEM Shipments (000)				500	1500	2000	2500	4000	500	10,000	10,500	Estimated distr. 10MM provided by Bill White Q4 96 Waiting for data
% Domestic Consumer	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%				
Net % of Dom. Consumers Who Become Qualified Subs	0.398%	0.398%	0.398%	0.398%	0.398%	0.398%	0.398%	0.398%				
Net Number of Qualified Subscribers				359	1,076	1,434	1,793	2,869	359	7,172	7,530	Does not take into account 90 day lag time to become qualified sub
Retail Shipments (000)				300	275	440	660	825	300	2,200	2,500	
Activation Percent				25%	25%	25%	25%	25%				
Total Activations				75,000	68,750	110,000	165,000	206,250	75,000	550,000	625,000	
Total Qualified Subscribers				46,650	42,763	68,420	102,630	128,288	46,650	342,100	388,750	Does not take into account 90 day lag time to become qualified sub
Percent Of National Users to Select RBOC				7%	7%	7%	7%	7%				Use same assumption as bundle deal
RBOC Qualified Subscribers				3,393	3,110	4,976	7,464	9,330	3,393	24,880	28,273	
Web Site - Navigator Personal Edition Downloads (000)				299	299	299	299	299	299	1,198	1,497	
Activation Percent				5%	5%	5%	5%	5%				
Total Activations (000)				15	15	15	15	15	15	60	75	
Total Qualified Subscribers (000)				9	9	9	9	9	9	37	47	
Percent Of National Users to Select RBOC				7%	7%	7%	7%	7%				Use same assumption as bundle deal
RBOC Qualified Subscribers				677	677	677	677	677	677	2,709	3,386	
Web Site Advertising												
Advertising Dollars Spent By Group Overall (000)				$	$ 625	$ 625	$ 625	$ 625	$	$ 2,500	$ 2,500	Per contract for the RBOC Group overall
Acquisition Cost Per Subscriber				$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00				
Total Subscribers				0	6.25	6.25	6.25	6.25				
RBOC Share of National Market				20.0%	20.0%	20.0%	20.0%	20.0%				
Percent of Consumers Who Remain Qualified Subscribers				62.2%	62.2%	62.2%	62.2%	62.2%				
RBOC Qualified Subscribers					778	778	778	778		3,110	3,110	
Web Site (Click and Switch)												Either assume these are upside or included in the PE Downloads Deal
Netscape Acquisition Grand Total	NA	NA	NA	4,429	5,640	7,865	10,712	13,653	4,429	37,870	42,299	

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Project Mercury Quantitative Analysis

Acquisition Channel Analysis

Case: Base **Case: Base**

Netscape Supporting Assumptions	Sensitivity Analysis Multiplier	Model Value	Vs Microsoft Assumptions Multiplier	Comments
OEM Deal				
OEM Shipments - 1997	0%	10,000	NA	Netscape provided projection of 10 million
Percent Domestic	0%	40%		Based on H&Q Institutional Research 4/96 PC Shipments Same as Microsoft assumptions
Domestic Corporate	0%	22%		North America
Domestic Consumer	0%	18%		North America
Percent of Consumers Who Click Internet Icon	0%	27.1%	0%	Assumes Microsoft somehow generates preference vs. Netscape (e.g. Setup wizard when plug in your computer)
Percent to Select RBOC	NA	7.3%	NA	See sub routine below
Percent of Consumers Who Register	0%	32.5%		
Percent of Consumers Who Remain Qualified Subscribers	0%	62.2%		90 days paying customers
Net Incremental Domestic Consumers Who Become Qualified Users	NA	0.398%	NA	
Percent to Select RBOC Sub Routine				
Percent Of National Users to Select RBOC	NA	7.3%	NA	
RBOC Share of National Market	0%	20%	NA	
Number of Providers in the Choiceset	NA	5.5	NA	Netcom PSI Earthlink Concentric RBOC
RBOC Share of Choiceset Space	0%	36%	100%	RBOC Preference and better branding comparisons
Retail Bundle Deal				
Shipment Volume 1996	0%	300,000		Netscape predicts 300,000
Shipment Volume 1997	10%	2,200,000		Netscape predicts 2,000,000
Activation Rate	0%	25%	NA	Netscape suggests a 25% rate
Net Incremental Domestic Qualified Subscribers	0%	62.2%	NA	90 days paying customers same as OEM deal
Navigator PE Downloads Deal				
Current LAN Version downloads - Daily	0%	70,000		Source Netscape Bill White
Current LAN Version downloads - Annual	NA	25,550,000		Simple calculation by 365 days
% Downloads that are Consumers	0%	50.0%		No data currently available
Domestic Download Percent	0%	62.5%		Netscape claims 62.5% of hits are domestic
Percent Total Downloads Upgrade Current LAN Version	0%	15.0%		Assume all consumer. Netscape suggests 10%
LE Annual Downloads		1,197,656		
Activation Rate	0%	5.0%		Netscape suggests 25% for OEM deal
Net Incremental Domestic Qualified Subscribers	0%	4,788	NA	90 days paying customers same as OEM deal
Web Site Advertising				
Visible Real Audience Generated Impressions	0%	2,100		
Target Audience Impressions for Consideration	0%	$ 150.00		
Total Advertisers	0%	5,000		
RBOC Share of National Market	0%	20.0%		
Percent Users who Become Qualified Subscribers	0%	6.0%		
Incremental Subscribers	0%	1,260		

Web Site (Click and Switch) Deal

Additional variables to consider.

[illegible] strength of selling people who [illegible] that suggests should interact or interact to pass and quotes them to the MSoft sales [illegible] the major inhibitor

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Project Mercury Quantitative Analysis

Acquisition Channel Analysis

Case: Downside **Case: Downside**

Microsoft Vs. Netscape

	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	Total 1996	Total 1997	Total Overall	Comments
Microsoft Total Qualified Subscribers	NA	NA	NA	766	482	619	773	891	766	2,764	3,530	
Netscape Total Qualified Subscribers	NA	NA	NA	222	572	695	949	1,037	222	3,159	3,372	
Variance	NA	NA	NA	544	(90)	(76)	(74)	(147)	544	(396)	158	

Microsoft Forecast

	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	1996 Total	1997 Total	Overall Total	Comments
Microsoft												
Weekly IE Downloads (OEM and Retail W/O				13,872	8,678	11,181	11,992	16,148	47,952	50,000	92,952	96 # s from DQuest 8/16/96 apply seasonally from 96 to 97
Weekly IE Upgrade Downloads	2,455	9,605	12,030	3,206	390	283	212	160	20,903	1,045	21,948	96 # s from DQuest 8/16/96
% Domestic Consumer	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%				Increase from 95 (19,666) to 96 (20,902)per DQuest # s was 47%
Net % of New Consumers Who Become Qualified Subs	0.042%	0.042%	0.042%	0.042%	0.042%	0.042%	0.042%	0.042%				Does not take into account 90 day lag time to become qualified sub
Net Number of Qualified Subscribers - W/O IE	NA	NA	NA	759	475	612	765	883	759	2,735	3,493	
IE Downloads (OEM)				4,471	4,471	4,471	4,471	4,471	4,471	17,885	22,356	
% Consumer				40.0%	40.0%	40.0%	40.0%	40.0%				
Domestic				43.8%	43.8%	43.8%	43.8%	43.8%				
Downloaded NOT under LAN				5.0%	5.0%	5.0%	5.0%	5.0%				
Daily IE Downloads				39	39	39	39	39	39	156	196	
Activation Rate				2.5%	2.5%	2.5%	2.5%	2.5%				
Percent Activations That Become Qualified Subscribers				49.8%	49.8%	49.8%	49.8%	49.8%				
Percent of Netscape Users Who Switch				1.5%	1.5%	1.5%	1.5%	1.5%				
Net Number of Qualified Subscribers - IE Downloads				1	1	1	1	1	1	29	37	
Microsoft Acquisition Grand Total				766	482	619	773	891	766	2,764	3,530	

Microsoft Supporting Assumptions

Phonebook Deal	Sensitivity Analysis Multiplier	Model Value	Comments
Microsoft W/O IE Upgrade Subscribers	0%	50,000	16% Growth From 96
Microsoft W/ IE Upgrade Subscribers	0%	1.04	96% Growth From 96 DQuest 95 to 96 numbers was 47%
Percent Domestic	0%	30%	Based on H&Q Institutional Research 4/96 PC Shipments MS shares 50%
Domestic Consumer	0%	13%	North America
Domestic Consumer	0%	13	North America MS shares 80% of shipments is consumer
Estimated Consumers Who Click Internet Icon	0%	21.7%	Has assumes one million Online Service subscribers MSN Compuserve and no Navigator
Percent to Select RBOC	0%	1.5%	see sub-routine below
Estimated Consumers Who Register	0%	26.0%	
Estimated Consumers Who Become Qualified Subscribers	0%	49.8%	90 days (avg) customers
Net % of Consumers Who Become Qualified Subs	NA	0.042%	
Percent to Select RBOC Sub-Routine			
Percent Of National Users to Select RBOC	NA	1.5%	This calculation assumes the RBOC gets a private share of registrants directly proportionate to the number of ISPs in the book
RBOC Share of National Market	0%	1%	
Number of Providers in the Phonebook	0%	13.0	
RBOC Share of phonebook space	0%	10.0	Based on proportion of number of ISPs in the phonebook
IE Downloads			
Downloads - Daily	0%	40,000	
Downloads - Annual	0%	17,885,000	
% Downloads that are Consumer	0%	40.0%	
Domestic Downloads percent	0%	43.8%	
Downloaded NOT under LAN	0%	5.0%	
Daily IE Access Downloads	0%	156,494	
Activation Rate	0%	2.5%	
Percent LEA's Phone That Become Qualified Subscribers	0%	49.8%	
Number of Phonebooks	0%	1.0	Number of Phonebook

Additional variables to consider.

Microsoft Upgrade Incentive - Giving people who already have the Internet Explorer that upgrade their software to latest version

Provide part of the Microsoft provided performance for the RBOC in the Phonebook

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Project Mercury Quantitative Analysis

Acquisition Channel Analysis

Case: Downside **Case: Downside**

Netscape Forecast	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	Total	Total	Total	Comments
Netscape												
OEM Shipments (000)				400	1200	1600	2000	3200	400	8 000	8 400	Estimated distr 10MM provided by Bill White Q4 96 Waiting for data
% Domestic Consumer	13 0%	13 0%	13 0%	13 0%	13 0%	13 0%	13 0%	13 0%				
Net % of Dom Consumers Who Become Qualified Subs	0.066%	0.066%	0.066%	0.066%	0.066%	0.066%	0.066%	0.066%				
Net Number of Qualified Subscribers				34	103	138	172	275	34	688	722	Does not take into account 90 day lag time to become qualified sub
Retail Shipments (000)												
Activation Percent				150	125	200	300	375	150	1 000	1 150	
Total Activations				10%	10%	10%	10%	10%				
Total Qualified Subscribers				15 000	12 500	20 000	30 000	37 500	15 000	100 000	115 000	
				7 464	6 220	9 952	14 928	18 660	7 464	49 760	57 224	Does not take into account 90 day lag time to become qualified sub
Percent Of National Users to Select BROC				2%	2%	2%	2%	2%				Use same assumption as bundle dea
BROC Qualified Subscribers				176	147	235	352	440	176	1 173	1 349	
Web Site Navigator Personal Edition Downloads (000)												
Activation Percent				39	39	39	39	39	39	156	196	
Total Activations (000)				3%	3%	3%	3%	3%				
Total Qualified Subscribers (000)				1	1	1	1	1	1	4	5	
				0	0	0	0	0	0	2	2	
Percent Of National Users to Select BROC				2%	2%	2%	2%	2%				Use same assumption as bundle deal
BROC Qualified Subscribers				11	11	11	11	11	11	46	57	
Web Site Advertising												
Advertising Dollars Spent By Group Overall (000)				$	$ 625	$ 625	$ 625	$ 625	$	$ 2 500	$ 2,500	Per contract for the BROC Group overall
Acquisition Cost Per Subscriber				$ 150 00	$ 150 00	$ 150 00	$ 150 00	$ 150 00				
Total Subscribers				0	4 16666667	4 16666667	4 16666667	4 16666667				
BROC Share of National Market				15 0%	15 0%	15 0%	15 0%	15 0%				
Percent of Consumers Who Remain Qualified Subscribers				49 8%	49.8%	49.8%	49.8%	49.8%				
BROC Qualified Subscribers					311	311	311	311		1 244	1,244	
Web Site (Click and Switch)												Either assume these are upside or included in the PE Downloads Dea
Netscape Acquisition Grand Total	NA	NA	NA	222	572	695	846	1,037	222	3,150	3,372	

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Project Mercury Quantitative Analysis

Acquisition Channel Analysis

Case: Downside **Case: Downside**

Netscape Supporting Assumptions	Sensitivity Analysis Multiplier	Model Value	Vs. Microsoft Assumptions Multiplier	Comments
OEM Deal				
OEM Shipments - 1997	0%	8,000	NA	Netscape provided projection of 10 million
Percent Domestic	0%	30%		Based on H&D Institutional Research 4/96 PC Shipments - Same as Microsoft assumptions
Domestic Corporate	0%	17%		North America
Domestic Consumer	0%	13%		North America
Percent of Consumers Who Click Internet Icon	0%	21.7%	20%	Assumes Microsoft somehow generates preference vs. Netscape (e.g. Set up wizard when plug in your computer)
Percent to Select RBOC	NA	2.4%	NA	See sub routine below
Percent of Consumers Who Register	0%	26.0%		
Percent of Consumers Who Remain Qualified Subscribers	0%	49.8%		90 days paying customers
Net % of Domestic Consumers Who Become Qualified Subs	NA	0.066%	NA	
Percent to Select RBOC Sub Routine				
Percent Of National Users to Select RBOC	NA	2.4%	NA	
RBOC Share of National Market	0%	15%	NA	
Number of Providers in the Phonebook	NA	7.0	NA	Netcom, PSI, Earthlink, Concentric, RBOC
RBOC Share of Phonebook Space	0%	[illegible]	10%	RBOC Preference and better branding comparisons
Retail Bundle Deal				
Shipment Volume 1996	0%	150,000		Netscape predicts 300,000
Shipment Volume 1997	0%	1,000,000		Netscape predicts 2,000,000
Activation Rate	0%	10%	NA	Netscape suggests a 25% rate
Percent of Activations That Remain Qualified Subscribers	0%	49.8%	NA	90 days paying customers, same as OEM deal
Navigator PE Downloads Deal				
Current LAN Version downloads - Daily	0%	49,000		Source: Netscape, Bill White
Current LAN Version downloads - Annual	NA	17,885,000		Simple calculation by 365 days
% Downloads that are Consumers	0%	40.0%		No data currently available
Domestic Download Percent	0%	43.8%		Netscape claims 62.5% of hits are domestic
Personal Edition Downloads Estimate (Per LAN Version)	0%	5.0%		Assume all consumer. Netscape suggests 30%
PE Annual Downloads		156,494		
Activation Rate	0%	2.5%		Netscape suggests 25% for OEM deal
Percent of Activations That Remain Qualified Subscribers	0%	49.8%	NA	90 days paying customers, same as OEM deal
Web Site Advertising				
Contractual Advertising Commitment ($000)	0%	2,500		
Target Acquisition Cost Per Subscriber	0%	$ 150.00		
Total Subscribers	0%	16,667		
RBOC Share of National Market	0%	15.0%		
Percent of Consumers Who Remain Qualified Subscribers	0%	49.8%		
RBOC Qualified Subscribers	0%	[illegible]		
Web Site (Click and Switch) Deal				

Additional variables to consider.

IEMcom - It implements a "setup" program when a user first sets up the computer that inquires about interest in Internet access and guides them to the MSoft icon, could be major inhibitor

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Project Mercury Quantitative Analysis

Acquisition Channel Analysis

Case: Upside **Case: Upside**

Microsoft Vs. Netscape	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	Total	Total	Total	Comments
Microsoft Total Qualified Subscribers	NA	NA	NA	50,813	28,314	35,459	43,485	77,297	50,813	184,556	235,369	
Netscape Total Qualified Subscribers	NA	NA	NA	38,040	57,322	75,620	90,480	136,080	38,040	365,511	493,551	
Variance	NA	NA	NA	12,774	(29,008)	(40,166)	(52,995)	(58,786)	12,774	(180,956)	(168,182)	

Microsoft Forecast	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	1996 Total	1997 Total	Overall Total	Comments
Microsoft												
Flightpark - OEM and Retail W 95												
Windows 95 Shipments (000)	7,455	9,605	12,020	22,195	11,631	14,986	18,754	34,629	51,275	80,000	131,275	96 # s from Dataset 8/16/96 apply seasonality from 96 to 97
Windows 3.1x Shipments (000)	7,298	5,666	4,231	3,206	1,560	1,113	847	641	20,903	4,161	25,064	96 # s from Dataset 8/16/96
												Decrease from 95 (39,666) to 96 (20,902)per DQuest # s was 47%
% Domestic Consumer	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%				
Net % of Home Consumers Who Become Qualified Subs	0.710%	0.710%	0.710%	0.710%	0.710%	0.710%	0.710%	0.710%				Does not take into account 90 day lag time to become qualified sub
Net Number of Qualified Subscribers - W 95	NA	NA	NA	47,274	24,774	31,919	39,945	73,757	47,274	170,396	217,669	
IE Downloads (000)				7,026	7,026	7,026	7,026	7,026	7,026	28,105	35,131	
% Consumer				60.0%	60.0%	60.0%	60.0%	60.0%				
% Domestic				75.0%	75.0%	75.0%	75.0%	75.0%				
% Downloaded NOT onto a LAN				30.0%	30.0%	30.0%	30.0%	30.0%				
Eligible IE Downloads				949	949	949	949	949	949	3,794	4,743	
Activation Rate				10.0%	10.0%	10.0%	10.0%	10.0%				
Percent of Activations That Become Qualified Subscribers				74.6%	74.6%	74.6%	74.6%	74.6%				
Percent of National Users to Select FBUOC				5.0%	5.0%	5.0%	5.0%	5.0%				
Net Number of Qualified Subscribers - IE Downloads				3,540	3,540	3,540	3,540	3,540	3,540	14,160	17,700	
Microsoft Acquisition Grand Total				50,813	28,314	35,459	43,485	77,297	50,813	184,556	235,369	

Microsoft Supporting Assumptions — Sensitivity Analysis

Phonebook Deal	Multiplier	Model Value	Comments
Windows 95 - OEM Shipments (000)	0	80,000	96% Growth From 96
Windows 3.1x Shipments (000)	0	4,161	80% Growth From 96 (Dataset 95 to 96 numbers was 47%
Percent Domestic	0%	50%	Based on IDC Institutional Research 4/96 PC Shipments MC Latins 50%
Domestic Corporate	0%	20%	North America
[illegible]	0%	1%	North America MC Latins 80% of shipments are consumer
Percent of Consumers Who Click Internet	0%	48.8	This assumes one other Online Service as well as MSN and Netscape Navigator
Percent to Select FBUOC	0%	5.0%	no sensitivities below
Percent of Consumers Who Register	0%	80.0%	
Percent of Consumers Who Become Qualified Subscribers	0%	74.6%	
Net % of Domestic Consumers Who Become Qualified Subs	0%	0.710%	
Percent to Select FBUOC Sub Routine			
Percent Of National Users to Select FBUOC	NA	5.0%	This variable assumes the FBUOC gets a pro-rata share of registrants directly proportionate to the number of ISPs in the book
FBUOC Share of National Market	0%	20%	
Number of Providers in the Phonebook	0%	5.0	
FBUOC Share of phonebook space	0%	20.0	Based on proportion of number of ISPs in the phonebook
IE Downloads			
Downloads - Daily	0%	77,000	
Downloads - Annual	0%	28,105,000	
% Downloads that are Consumers	0%	60.0%	
Domestic Download percent	0%	75.0%	
% Downloaded NOT onto a LAN	0%	30.0%	
Eligible IE Annual Downloads	0%	3,794,175	
Activation Rate	0%	10.0%	
Percent of Activations That Become Qualified Subscribers	0%	74.6%	
[illegible]	0	5.0	Increase Phonebook

Additional variables to consider.

[illegible]

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Project Mercury Quantitative Analysis

Acquisition Channel Analysis

Case: Upside **Case: Upside**

Netscape Forecast	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	Total	Total	Total	Comments
Netscape												
OEM Shipments (000)				800	2400	3200	4000	6400	800	16,000	16,800	Estimated distr. 10MM provided by Bill White Q4 96 Waiting for data
% Domestic Consumer	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%				
Net % of Dom. Consumers Who Become Qualified Subs	2.219%	2.219%	2.219%	2.219%	2.219%	2.219%	2.219%	2.219%				
% of Number of Qualified Subscribers				10,650	31,949	42,599	53,249	85,198	10,650	212,995	223,645	Does not take into account 90 day lag time to become qualified sub
Retail Shipments (000)				400	312.5	500	750	937.5	400	2,500	2,900	
Activation Percent				35%	35%	35%	35%	35%				
Total Activations				140,000	109,375	175,000	262,500	328,125	140,000	875,000	1,015,000	
Total Qualified Subscribers				104,496	81,638	130,620	195,930	244,913	104,496	653,100	757,596	Does not take into account 90 day lag time to become qualified sub
Percent Of National Users to Select BBOC				16%	16%	16%	16%	16%				Use same assumption as bundle deal
BBOC Qualified Subscribers				16,328	12,756	20,409	30,614	38,268	16,328	102,047	118,374	
Web Site - Navigator Personal Edition Downloads (000)				949	949	949	949	949	949	3,794	4,743	
Activation Percent				10%	10%	10%	10%	10%				
Total Activations (000)				95	95	95	95	95	95	379	474	
Total Qualified Subscribers (000)				71	71	71	71	71	71	283	354	
Percent Of National Users to Select BBOC				16%	16%	16%	16%	16%				Use same assumption as bundle deal
BBOC Qualified Subscribers				11,062	11,062	11,062	11,062	11,062	11,062	44,250	55,312	
Web Site Advertising												
Advertising Dollars Spent By Group Overall (000)				$	$ 625	$ 625	$ 625	$ 625	$	$ 2,500	$ 2,500	Per contract for the BBOC Gropup overall
Acquisition Cost Per Subscriber				$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00				
Total Subscribers				0	8.33333333	8.33333333	8.33333333	8.33333333				
BBOC Share of National Market				25.0%	25.0%	25.0%	25.0%	25.0%				
Percent of Consumers Who Remain Qualified Subscribers				74.6%	74.6%	74.6%	74.6%	74.6%				
BBOC Qualified Subscribers					1,555	1,555	1,555	1,555		6,220	6,220	
Web Site (Click and Switch)										--	-	Either assume these are upside or included in the PE Downloads Dea
Netscape Acquisition Grand Total	NA	NA	NA	38,040	57,322	75,626	96,480	136,083	38,040	365,511	403,551	

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Project Mercury Quantitative Analysis

Acquisition Channel Analysis

Case: Upside **Case: Upside**

Netscape Supporting Assumptions	Sensitivity Analysis Multiplier	Model Value	Vs. Microsoft Assumptions Multiplier	Comments
OEM Deal				
OEM Shipments - 1997	0%	16,000	NA	Netscape provided projection of 10 million
Percent Domestic	0%	80%		Based on H&Q Institutional Research 4/96 PC Shipments - Same as Microsoft assumptions
Domestic Corporate	0%	20%		North America
Domestic Consumer	0%	60%		North America
Percent of Consumers Who Click Internet Icon	0%	48.8%	80%	Assumes Microsoft somehow generates preference vs. Netscape (e.g. Set up wizard when plug in your computer)
Percent to Select RBOC	NA	15.6%	NA	See sub routine below
Percent of Consumers Who Register	0%	39.0%		
Percent of Consumers Who Remain Qualified Subscribers	0%	74.6%		90 days paying customers
Net % of Domestic Consumers Who Become Qualified Subs	NA	2.219%	NA	
Percent to Select RBOC Sub Routine				
Percent Of National Users to Select RBOC	NA	15.6%	NA	
RBOC Share of National Market	0%	25%	NA	
Number of Providers in the Chinabook	NA	4.0	NA	Netcom, PSI, Earthlink, Concentric, RBOC
RBOC Share of Chinabook space	0%	[illegible]	150%	RBOC Preference and better branding comparisons
Retail Bundle Deal				
Shipment Volume 1996	0%	400,000		Netscape predicts 300,000
Shipment Volume 1997	0%	2,500,000		Netscape predicts 2,000,000
Activation Rate	0%	15%	NA	Netscape suggests a 25% rate
Percent of Activations That Remain Qualified Subscribers	0%	74.6%	NA	90 days paying customers, same as OEM deal
Navigator PE Downloads Deal				
Current LAN Version downloads - Daily	0%	77,000		Source: Netscape, Bill White
Current LAN Version downloads - Annual	NA	28,105,000		Simple calculation by 365 days
% Downloads that are Consumers	0%	60.0%		No data currently available
Domestic Download Percent	0%	75.0%		Netscape claims 62.5% of hits are domestic
Personal Edition Download Estimate (% of LAN Version)	0%	30.0%		Assume all consumer, Netscape suggests 10%
PE Annual Downloads		3,794,175		
Activation Rate	0%	10.0%		Netscape suggests 25% for OEM deal
Percent of Activations That Remain Qualified Subscribers	0%	74.6%	NA	90 days paying customers, same as OEM deal
Web Site Advertising				
Contractual Advertising Commitment ($000)	0%	2,500		
Target Acquisition Cost Per Subscriber	0%	$ 75.00		
Total Subscribers	0%	33,333		
RBOC Share of National Market	0%	25.0%		
Percent of Consumers Who Remain Qualified Subscribers	0%	74.6%		
RBOC Qualified Subscribers	0%	[illegible]		

Web Site (Click and Switch) Deal

Additional variables to consider.

If Microsoft implements a "setup" program when a user first sets up the computer that inquires about interest in Internet [illegible] and guides them to the MSoft icon, could be major inhibitor

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Project Mercury Quantitative Analysis

Consumer Behavior Distributions

% To Click Internet Icon	Probability	% To Register	Probability	% Qualified Subs	Probability
10%	15%	10%	10%	10%	0%
20%	40%	20%	15%	20%	0%
30%	20%	30%	35%	30%	5%
40%	14%	40%	25%	40%	8%
50%	7%	50%	10%	50%	12%
60%	3%	60%	5%	60%	30%
70%	1%	70%	0%	70%	30%
80%	0%	80%	0%	80%	10%
90%	0%	90%	0%	90%	5%
100%	0%	100%	0%	100%	0%
	100%		100%		100%
Expected Value	27.1%	Expected Value	32.5%	Expected Value	62.2%

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Project Mercury Quantitative Analysis

OEM PC Shipments - Netscape Software Deals

	1994	1995	1996	1997
Compaq	4,795,218	6,016,016	NA	NA
Apple	3,957,199	4,718,995	NA	NA
NEC	1,941,081	2,883,523	NA	NA
HP	1,273,739	2,210,993	NA	NA
Acer	1,260,749	1,845,006	NA	NA
AST Research	1,315,980	1,379,011	NA	NA
Zenith	NA	NA	NA	NA
Total	14,543,966	19,053,544	NA	NA

Source: Dataquest 4/29/96 PCIS WW MS-9603 (3/96)

Worldwide #'s	47,894,311	60,171,000	NA	NA
Worldwide #'s	47,400,000	59,200,000	71,200,000	85,000,000

Source: Dataquest 4/29/96 PCIS-WW-MS-9603
Source: H&Q Institutional Research, 4/96, PC Shipments

Other vendors Netscape has deals with
(Source: Bill White, 8/20/96)

Hardware	Software
Dell	Berkeley Systems (BSDI)
Olivetti	DocuMagix
Toshiba	Elektronom
[illegible]	Intuit
	Malls Limited
	Aberdeen Group
	Corel - Office, Wordperfect, NOT Draw today

Project Mercury Quantitative Analysis

Browser Cost Savings Analysis -- Preliminary

	Q1 '96	Q2 '96	Q3 '96	Q4 '96	Q1 '97	Q2 '97	Q3 '97	Q4 '97	1996 Total	1997 Total	Overall Total	Comments
RBOC Subscriber Acquisition				20,000	50,000	50,000	50,000	50,000	20,000	200,000	220,000	
% IE Free Browser				10.0%	16.0%	25.6%	41.0%	65.5%				
# of IE Free Browsers	NA	NA	NA	2,000	8,000	12,800	20,480	32,768	2,000	74,048	76,048	
License Fee Savings				$ 24,000	$ 96,000	$ 153,600	$ 245,760	$ 393,216	$ 24,000	$ 888,576	$ 912,576	

	Sensitivity Analysis Multiplier	Model Value	Comments
% IE Free Browser - Start		10%	
% IE Market Share Growth Rate (Per Qtr)		60%	
Browser License Fee		$ 12.00	In aggregate including upgrades

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Exhibit C
IAS Attachment to Term Sheet

1. Company Infrastructure/Deliverables.

1.1 Requirements for Internet Access Infrastructure.

Netscape requires, and Company agrees to establish and maintain the infrastructure for Internet access as described below in order that Netscape may provide Subscribers with a choice of competitive Internet access services:

(a) All POPs must support PPP, with PAP/CHAP compliancy.
(b) Support for POP3 or SMTP mail servers.
(c) Support for NNTP for news.
(d) Verification that each new POP works with Dial Up Kit.
(e) "Free" test accounts for testing Dial Up Kit.

1.2 Requirements for Account Creation Infrastructure.

Netscape requires, and Company agrees to establish and maintain the infrastructure for Account Creation as described below in order that Netscape may integrate Company with Netscape's IAS:

(a) Installation of Netscape's ISP Protocol Server (REGD), including SSLD Security Server, on a Unix-based system. Both server front-ends are provided by Netscape to Company.
(b) Support for real-time account provisioning. Once an error-free account creation process is complete, Subscriber must be able to access Company's service through Company's POPs, with a delay of no more than 10 minutes.
(c) Support for creating "Free" test accounts for testing account creation process, and Company's Infrastructure.
(d) Support for capturing and reporting the REG_CHANNEL identifiers and total number of subscribers for each REG_CHANNEL identifier.

2. Review and Approval of Company Pages. Netscape will have the right to review the content and format of each Company Page prior to including any such page in the IAS. If Netscape determines, in its reasonablediscretion, at any time before or after delivery of any such page by Company that such page contains any material, or presents any material in a manner, that is not appropriate for use in the IAS, Netscape will inform Company of such determination and, if such page is already incorporated in the IAS, Netscape may immediately remove such page from the IAS. Instead of Netscape incorporating such Company Page in the IAS, Company will deliver to Netscape a revised Company Page that Netscape determines, in its reasonablediscretion, is appropriate for use in the IAS. In no event will Netscape be required to incorporate any Company Page or other information in the IAS except as described in this paragraph.

3. License Rights. Company grants to Netscape a non-exclusive license during the term of this Agreement to use, reproduce, electronically distribute, publicly display, and publicly perform the materials delivered to Netscape by Company for presentation on the IAS. Nothing in this Agreement gives either party any exclusive marketing or distribution rights. Company further grants to Netscape the right to use Company s trademarks, trade names, servicemarks, and/or logos in any advertising, promotional, and other marketing materials for the IAS in a manner consistent with Company s standard trademark usage, and in each instance, subject to a Company's approval, which shall not be unreasonably withheld. Netscape will submit samples of such materials to Company from time to time upon Company's request.

4. Technical Support. Netscape will provide front-line (first line) technical support to users of PE and Navigator Gold PE during the account creation process in accordance with Netscape's then current technical support policies. Company agrees to provide back-up (second line) technical support to Netscape during the account creation process for users of PE or Navigator Gold PE that are trying to create an account for the Company's Internet access services in accordance with Company's then current technical support policies. Company will have sole responsibility for end user support for Internet access services once the user has establ[illegible]d a functioning connection directly to the Company.

5. Records and Reports. Company shall use the "REG_CHANNEL" identifier passed through during account creation to sort and total the number of subscribers for each REG CHANNEL identifier. Within thirty (30) days after the end of each month, Company will deliver to Netscape in writing or by secure e-mail a report in the format as specified below showing the number of Subscribers acquired by Company for each REG_CHANNEL through the IAS, that have become Qualified Subscribers. Bounties are due and payable net thirty (30) days after a subscriber becomes a Qualified Subscriber. Company will maintain, for at least eighteen (18) months after termination of this Agreement, accurate books and records relating to Subscribers who signed up for Company's services through the IAS. Netscape shall have the right to audit Company's compliance with this section 5 including, without limitations, that the number of Subscribers per REG_CHANNEL reported to Netscape is correct purusant to the audit provisions of the agreement previously executed by the Company and Netscape.

REPORT FORMAT

REG_CHANNELs	Number of Subscribers
Example: NSCP1001	1,207 subscribers

Exhibit 2

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Netscape's back-end technical support services shall include the following:

a. Back-end Support. Netscape will provide back-end support to Company for Program Errors not resolved by Company pursuant to Company's support policies and in accordance with subsection b. below. This support includes efforts to identify defective source code and to provide corrections, workarounds and/or patches to correct Program Errors. Netscape will provide Company with a telephone number and an e-mail address which Company may use to report Program Errors during Netscape's local California business hours (5am - 5pm PST). For priority 1 or 2 failures, Company agrees to notify Netscape via telephone, fax and/or e-mail. Company will identify one (1) member of its customer support staff and an alternate to act as the primary technical liaisons responsible for all communications with Netscape's technical support representatives. Such liaisons will have sufficient technical expertise, training and/or experience, for Company to perform its obligations hereunder. Company will designate, in writing and/or e-mail to Netscape, its liaison(s) as soon as possible after the Effective Date, and may substitute contacts at any time by providing one (1) week's prior written and/or electronic notice thereof to Netscape.

Netscape will use its best efforts to correct significant Program Errors, commensurate with the nature and severity of the Program Errors, and in accordance with the terms of this Attachment E, that Company identifies, classifies and reports to Netscape and that Netscape substantiates. Company will provide sufficient information for Netscape to enable Netscape to duplicate the Program Error before Netscape's response obligations will commence. Netscape will not be required to correct any Program Error caused by (a) Company's incorporation, attachment of a feature, program or device to the Netscape Products, or any part thereof; (b) any nonconformance caused by accident, transportation, neglect or misuse; (c) alteration, modification, or enhancement of the Netscape Products, provided such alteration, modification or enhancement is not made at the direction or authorization of Netscape; (d) the failure to provide a suitable installation environment; (e) use of the Netscape Products for other than the specific purpose for which the Netscape Products are designed; (f) use of the Netscape Products on any systems other than the specified hardware platform for such Netscape Products; or (g) Company's use of defective media or defective duplication of the Netscape Products.

Provided Program Error reports are received by Netscape during Netscape's local California business hours (5am - 5pm PST), Netscape will use its best commercial efforts to communicate with Company about the Program Error, via telephone or e-mail within the following target response time.

Priority	Failure Description	Response Time
1	Fatal (no useful work can be done).	10 hours
2	Severe Impact (Functionality disabled): Errors which result in a lack of application functionality or cause intermittent system failure.	1 working day
3	Degraded Operations: Errors causing malfunction of non-critical functions.	3 working days
4	Minimal Impact: attributes and/or options to utility programs do not operate as stated.	Next release, on a business justifiable basis
5	Enhancement Request.	When applicable

Netscape will use best commercial efforts to resolve each significant Program Error by providing either a reasonable workaround, an object code patch or a specific action plan for how Netscape will address the program and an estimate of how long it will take to rectify the defect. Netscape reserves the right to charge Company additional fees at its then applicable rates for services performed in connection with reported Program Errors which are later determined to have been due to hardware or software not supplied by Netscape. Notwithstanding the foregoing, Netscape has no obligation to perform services in connection with (i) Program Errors resulting from hardware or software not supplied by Netscape; or (ii) which occur in the Netscape Product release which is not the then current release.

b. Front-line Support. Company, and not Netscape, will provide front-line, or first and second level, technical support to its Distributors, Registered Users and End Users. Such support includes call receipt, entitlement verification, call screening, installation assistance, problem identification and diagnosis, product defect determination, efforts to create a repeatable demonstration of the Program Error and, if applicable, the distribution of any defective media or Updates. Company agrees that any documentation distributed by Company will clearly and conspicuously state that Registered Users and End Users should call Company for technical support for the Netscape Products. Netscape will have no obligation to furnish any assistance, information or documentation with respect to the Netscape Products, to any Distributor, Registered User or End User. If Netscape customer support representatives are being contacted by a significant number of Company's Distributors, Registered User or End Users, then, upon Netscape's request, Company and Netscape will cooperate to minimize such contact.

Ex. A

Ex B. TO Come

N. CHOOSE A SERVICE PROVIDER

WELCOME TO THE NETSCAPE INTERNET ACCOUNT SERVER

With Netscape Navigator Personal Edition, you can automatically create an Internet account with a Service Provider. Please select from one of the options below.

- Local Bell Internet Provider for your area code (770) BELLSOUTH.net
- Long Distance Companies & Other Telecommunications Companies
- More Internet Service Provider Choices

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ATTACH C

IAS Term Sheet Attachment

BEING MARKED JP

1. Company Infrastructure/Deliverables.

1.1 Requirements for Internet Access Infrastructure.

Netscape requires, and Company agrees to establish and maintain the infrastructure for Internet access as described below in order that Netscape may provide Subscribers with a choice of competitive Internet access services:

(a) All POPs must support PPP, with PAP/CHAP compliancy.
(b) Support for POP3 or SMTP mail servers.
(c) Support for NNTP for news.
(d) Verification that each new POP works with Dial Up Kit.
(e) "Free" test accounts for testing Dial Up Kit.

1.2 Requirements for Account Creation Infrastructure.

Netscape requires, and Company agrees to establish and maintain the infrastructure for Account Creation as described below in order that Netscape may integrate Company with Netscape's IAS:

(a) Installation of Netscape's ISP Protocol Server (REGD), including SSLD Security Server, on a Unix-based system. Both server front-ends are provided by Netscape to Company.
(b) Support for real-time account provisioning. Once an error-free account creation process is complete, Subscriber must be able to access Company's service through Company's POPs, with a delay of no more than 10 minutes.
(c) Support for creating "Free" test accounts for testing account creation process, and Company's Infrastructure.
(d) Support for capturing and reporting the REG_CHANNEL identifiers and total number of subscribers for each REG_CHANNEL identifier.

2. Review and Approval of Company Pages. Netscape will have the right to review the content and format of each Company Page prior to including any such page in the IAS. If Netscape determines, in its sole discretion, at any time before or after delivery of any such page by Company that such page contains any material, or presents any material in a manner, that is not appropriate for use in the IAS, Netscape will inform Company of such determination and, if such page is already incorporated in the IAS, Netscape may immediately remove such page from the IAS. Instead of Netscape incorporating such Company Page in the IAS, Company will deliver to Netscape a revised Company Page that Netscape determines, in its sole discretion, is appropriate for use in the IAS. In no event will Netscape be required to incorporate any Company Page or other information in the IAS except as described in this paragraph.

3. License Rights. Company grants to Netscape a non-exclusive license during the term of this Agreement to use, reproduce, electronically distribute, publicly display, and publicly perform the materials delivered to Netscape by Company in connection with the IAS. Nothing in this Agreement gives either party any exclusive marketing or distribution rights. Company further grants to Netscape the right to use Company's trademarks, trade names, servicemarks, and/or logos in ~~any advertising, promotional, and other marketing materials for the Dial Up Kit and~~ the IAS in a manner consistent with Company's standard trademark usage. ~~Netscape will submit samples of such materials to Company from time to time upon Company's request.~~

4. Technical Support. Netscape will provide front-line (first line) technical support to users of the ~~Dial Up Kit~~ during the account creation process in accordance with Netscape's then current technical support policies. Company agrees to provide back-up (second line) technical support to Netscape during the account creation process. Company will have sole responsibility for end user support for Internet access services once the user has established a functioning connection directly to the Company.

5. Records and Reports. Company shall use the "REG_CHANNEL" identifier passed through during account creation to sort and total the subscribers for ~~each unique marketing channel created by Netscape~~. Within thirty (30) days after the end of each month, Company will deliver to Netscape in writing or by secure e-mail a report in the format as specified below showing the number of Subscribers acquired by Company for each REG_CHANNEL through the IAS, that Company ~~billed for a second month's service, and such other information as Netscape may reasonably request from time to time~~. ~~Commission payments must accompany the monthly report.~~ Company will maintain, for at least ~~three (3) years~~ after termination of this Agreement, accurate books and records relating to Subscribers who signed up for Company's services through the IAS. ~~Netscape shall have the right, no more than once per twelve month period, upon reasonable prior written notice to Company, to have an independent third party verify that Company's compliance with this section 5 including, without limitations, that the number of Subscribers per REG_CHANNEL reported to Netscape is correct. Company shall not have the right to learn information about, or the identity of, each unique marketing channel created by Netscape.~~

REPORT FORMAT

REG_CHANNELs	Number of Subscribers
Example: NSCP1001	1,207 subscribers

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ATTACHMENT E
OEM MAINTENANCE AND SUPPORT

1. Maintenance/ Updates. In consideration of the Maintenance and Support fee set forth in Attachment B hereto, Netscape will provide to Pacific any Updates made generally available during each one (1) year term that Pacific elects to purchase maintenance, support, and Updates during the three (3) year term of the OEM Reseller License Agreement between Pacific and Netscape dated March 24, 1995. Pacific and not Netscape will be responsible for providing Updates to its Distributors and Registered Users. The expenses of any such distribution will be paid by Pacific. Pacific and Netscape will favorably consider electronic or alternative dissemination methods of such Updates to the extent consistent with both company s policies. Pacific and Netscape agree to discuss quarterly support issues and processes.

2. Technical Support. Also, in consideration of the Maintenance and Support fee set forth in Attachment B hereto, Netscape will provide Pacific with Netscape's backend technical support services, as further described herein.

a. Back-end Support. Netscape will provide back-end support to Pacific for Program Errors not resolved by Pacific pursuant to Pacific's support policies and in accordance with subsection b below. This support includes efforts to identify defective source code and to provide corrections, workarounds and/or patches to correct Program Errors. Netscape will provide Pacific with a telephone number and an e-mail address which Pacific may use to report Program Errors during Netscape's local California business hours (8am - 5pm PST). For priority 1 or 2 failures, Pacific agrees to notify Netscape via telephone, fax and/or e-mail. Pacific will identify one (1) member of its customer support staff and an alternate to act as the primary technical liaisons responsible for all communications with Netscape's technical support representatives. Such liaisons will have sufficient technical expertise, training and/or experience, for Pacific to perform its obligations hereunder. Pacific will designate, in writing and/or e-mail to Netscape, its liaison(s) as soon as possible after the Effective Date, and may substitute contacts at any time by providing one (1) week's prior written and/or electronic notice thereof to Netscape.

Netscape will use its best efforts to correct significant Program Errors, commensurate with the nature and severity of the Program Errors, and in accordance with the terms of this Attachment E, that Pacific identifies, classifies and reports to Netscape and that Netscape substantiates. Netscape may reclassify Program Errors if it reasonably believes that Pacific's classification is incorrect. Pacific will provide sufficient information for Netscape to enable Netscape to duplicate the Program Error before Netscape's response obligations will commence. Netscape will not be required to correct any Program Error caused by (a) Pacific's incorporation, attachment of a feature, program, or device to the Netscape Products, or any part thereof; (b) any nonconformance caused by accident, transportation, neglect or misuse; (c) alteration, modification, or enhancement of the Netscape Products, provided such alteration, modification or enhancement is not made at the direction or authorization of Netscape; (d) the failure to provide a suitable installation environment; (e) use of the Netscape Products for other than the specific purpose for which the Netscape Products are designed; (f) use of the Netscape Products on any systems other than the specified hardware platform for such Netscape Products; (g) Pacific's use of defective media or defective duplication of the Netscape Products; or (h) Pacific's failure to incorporate any Update previously released by Netscape which corrects such Program Error.

Provided Program Error reports are received by Netscape during Netscape s local California business hours (8am - 5pm PST), Netscape will use its best commercial efforts to communicate with Pacific about the Program Error, via telephone or e-mail within the following targeted response time

Priority	Failure Description	Response Time
1	Fatal (no useful work can be done).	10 hours
2	Severe Impact (Functionality disabled): Errors which result in a lack of application functionality or cause intermittent system failure.	1 working day
3	Degraded Operations: Errors causing malfunction of non-critical functions.	3 working days
4	Minimal Impact : attributes and/or options to utility programs do not operate as stated.	Next release, on a business justifiable basis
5	Enhancement Request.	When applicable

Netscape will use reasonable commercial efforts to resolve each significant Program Error by providing either a reasonable workaround, an object code patch or a specific action plan for how Netscape will address the problem and an estimate of how long it will take to rectify the defect. Netscape reserves the right to charge Pacific additional fees at its then standard rates for services performed in connection with reported Program Errors which are later determined to have been due to hardware or software not supplied by Netscape. Notwithstanding the foregoing, Netscape has no obligation to perform services in connection with (i) Program Errors resulting from hardware or software not supplied by Netscape; or (ii) which occur in the Netscape Product release which is not the then current release.

b. Front-line Support. Pacific, and not Netscape, will provide front-line, or first and second level, technical support to its Distributors, Registered Users and End Users. Such support includes call receipt, entitlement verification, call screening, installation assistance, problem identification and diagnosis, product defect determination, efforts to create a repeatable demonstration of the Program Error and, if applicable, the distribution of any defective media or Updates. Pacific agrees that any documentation distributed by Pacific will clearly and conspicuously state that Registered Users and End Users should call Pacific for technical support for the Netscape Products. Netscape will have no obligation to furnish any assistance, information or documentation with respect to the Netscape Products, to any Distributor, Registered User or End User. If Netscape customer support representatives are being contacted by a significant number of Pacific's Distributors, Registered User or End Users then, upon Netscape's request, Pacific and Netscape will cooperate to minimize such contact.

3. Training. As soon as available for commercial release, Netscape agrees to provide Pacific, at no charge, one (1) copy of media containing a computer based, self-paced tutorial providing training on the Netscape Products licensed by Pacific. Pacific may not copy this tutorial. Additional copies of the tutorial will be made available by Netscape to Pacific at Netscape's cost.