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Subject to Protective Order in
Nos. 1:98CV012332 and 1:98CV012333
U.S.D.C., District of Columbia

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PACIFIC BELL
Internet Services

Mercury Browser and Referral Phonebook

Opportunity Assessment

Overview
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Overview

Pacific Bell Internet Services' (PBI) product family currently consists of dedicated Internet access services for high-end business customers and basic analog dial-up Internet access services for the mass market. The current analog offering is referred to as Pacific Bell Internet ("PB Internet" for this document) and includes the Netscape Personal Edition 2.0 ("PE 2.0") software bundled in the offering. PE 2.0 is a World Wide Web browser with integrated e-mail and a news reader. It is the number one market share browser in the market with an estimated 80% market share.

Although there are other browsers on the market, almost all analysts indicate the next closest contender for significant success in the market is the Microsoft Internet Explorer 3.0 ("MSIE 3.0") version to be released this August/September. Currently, MSIE 3.0 has approximately a 5-10% market share and analysts project a 20% market share by year end.

The opportunity here is for PBI to offer the MSIE 3.0 to customers as an option for their service. By making this offering, PBI would be meeting customer demand for this product and potentially incrementally growing the PBI subscriber base, support market forces for the development of the best product in the market place, and save licensing fees that would otherwise be paid to Netscape (currently $9.00 per unit for Netscape and $0.00 per unit for MSIE 3.0).

Signing a deal with Microsoft for the browser (or at least negotiating the deal for signature) would also lead to potential opportunities to be included in a "referral server phonebook" to be bundled with each version of Windows '95 to be shipped starting this fall - a potentially large referral source for subscribers.

The financial impact of this opportunity is estimated at $300,000 in 1996 and over $3.7 million in 1997. This takes into account the cost savings associated with license fees not paid to Netscape and incremental subscribers attracted by the MSIE 3.0 offering and the phone book.

MSIE 3.0 Features

MS IE 3.0 has a number of features the previous MS browser did not have and has caught up with Netscape in many ways. MS IE will also be available on multiple platforms including Macintosh, Windows 3.x, Windows NT and Windows 95.

Table 1

MS IE 3.0 Features

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Product Feature
Frames - Borderless, floating
Tables - Text wrapping, group element, cell shading
Easy customization Kit - toolbar, favorites menu, start page, logo,
HTML Extensions (3.2+)
Style sheets
TruType Web Fonts
In-line sound and video
Marquees
Internet mail (SMTP, POP) and news
Netmeeting - Internet phone, whiteboard, application sharing
ActiveX
Java Support
Sicily security protocol

Customer Needs

Customers will demand greater ease of use and, at the same time, greater functionality from the software they use to access the Internet. By supporting competition between Netscape and Microsoft, PBI and other ISPs can effectively deliver the best product to the customer.

Financial Analysis

A more detailed financial impact analysis must be conducted, but in the interim the preliminary analysis on the next page suggests a sizable opportunity reaching a potential revenue impact over $3.7 million in 1997

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	1996	1997
License Fees Saved		
PBI Overall Dial-Up Base	80,000	200,000
% Subscribers using MS IE 3.0	10%	15%
Subscribers using MS IE 3.0	8,000	30,000
Netscape License Fee	$9.00	$9.00
Saved License Fees	$ 72,000	$ 270,000
Incremental New Subscribers		
% Subscribers Who Sign Up due to MS IE Offering	3.0%	3.0%
Incremental Subs Due to MS IE 3.0	2,400	6,000
Average Monthly Revenue	$15	$15
Equivalent Months of Revenue	3	6
Incremental Subscriber Revenue	$ 108,000	$ 540,000
Internet Referral Server Phonebook		
Windows OS Distirbuted	10,000,000	65,000,000
% US	50%	50%
% CA	10%	10%
% Users who "click" the server and register	15%	20%
% Users who select PBI	5%	5%
PBI referral subscribers	3,750	32,500
Average Monthly Revenue	$15	$15
Equivalent Months of Revenue	3	6
Incremental Subscriber Revenue	$ 168,750	$ 2,925,000
Total Incremental Revenues to PBI	$ 348,750	$ 3,735,000

Organizational Impact

Further work needs to be done in this area, but it seems the greatest impact may be on the CSO, training TAs on the new browser. There will also be an impact on fulfillment, marketing communications and other areas of the business. In terms of development, IS&T, billing and the network, there seems to be minimal impact on the business.

Regarding the impact on the TechCenter, we are working closely with TechCenter staff to evaluate a technical support program MS offers that may alleviate the impact.

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Next Steps / Outstanding Issues

The executive committee must prioritize this opportunity among the many efforts available to PBI. Final terms must be negotiated for the License Agreement while at the same time balancing negotiations for MSN, the MSN phonebook, and possibly Front Page. If the Executive Team determines this opportunity is an attractive one, we should move forward with a Product Description Document, further negotiations and completion of a final agreement. Current outstanding issues include:

Assessing the referral potential of the phonebook - We are arranging a demonstration

MS is requiring preferred status for MS IE 3.0 - Working on cracking this nut in negotiations

Technical support impact must be further assessed and a solution negotiated with Mercury - In process

Other detailed terms that seem to be surmountable - subject to further negotiation