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GOVERNMENT EXHIBIT
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Subj Microsoft Pittman Follow Up
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From Mvshaffer
To. DKRJJ, DGang, Jayrapp
CC. SOSmithJr, Mvshaffer
Sent on AOL 3 0 for Windows 95 sub 49

Here are some talking points to follow up our meeting with Pittman last week

Pittman Notes:
Equal/Parity with MSN
Better deal than any third parties
Same number of clicks for AOL as MSN
New category? MSN/AOL
Referal server- parity with MSN
Exclusive aggregator on Tool Bar for Active desktop
AOL on Active Desktop all the time

Other:
-What about issues surrounding multiple memberships by one user. Referal server, Active Desktop pointers?
-Should AOL cut promotion/pointer deals with PCN, Disney et al for the Active Desktop.
-Can MS do Active Desktop **without** our involvement (Legal)
-What about NetScape's Constellation?
-What impact do our actions have on the OEM relationships in place?
-Myer's input on advertising sales.

-Current OSR2 Promotion
-Active Desktop
-Windows Database
-Internet Referral Server
-Microsoft com/Windows 95.com Promotion
-Distribution of AOL with other MS products
-AOL / MS support of Windows NTand CE

Current OSR2 Promotion
The current deal gives Microsoft's IE the distribution (and market share) to AOL exisiting base and provides for an upside as AOL grows. In exchange AOL is bundled with every version of Windows 95 OS plus all other Windows OS upgrades. Plus AOL gets royalty free use of the IE code.

Ideally, modification to the deal would provide AOL parity with MSN and subordinate all ISPs and Online services. The extent to which we gain more parity with MSN and minimalize the promotion of other connectivity options is critical.

Notwithstanding the forgoing, AOL is receiving good registrations to from the OSR2 bundle (~ 5,000 per week). While it is premature to comment on these numbers for the long term, my gut tells me that these are indeed incremental registrations derived from the bottom 25% of the PC clone market. This segment of the PC industry numbers in the hundreds and even thousands of disparate manufacturers which AOL will never have its own contract for distribution. The registrations could indeed grow on a weekly basis, since I do not think we are seeing a seasonal uptick. Again, it is early in the cycle, so we need to be conservative.

That said, there is value to our current deal and the OSR2 bundle has been good for us. But we need to focus on the parity issues mentioned above

Things we need from MS:

Parity with MSN- user cannot easily delete AOL from desktop, AOL needs to be **installed**, what are the limits on the OL services folder? What happens to WOW!'s spot, who else is in the folder? AOL needs a brochure in all boxes as is the case today.

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If user has no access or connectivity, then they will be directed to AOL sign up, not listed as an option with all other ISPs

We also need more information from MS OEM information, number of licenses shipped per month, names of licensors, better information on timing of deliverables to OEM, etc .

Active Desktop
Our interests here are in using the sample AOL content that will appear within the active window to drive membership acquisition. Through a combination of compelling content (both free and "only on AOL" content) and compelling offers, we will separate AOL from the rest of the online service/ISP pack This interface will most likely be the most visible item on every Windows 95 machine that is built after June 97 and it supplies us with the means to show people what is so great about AOL vs. the rest of the Online Services Folder.

The second way to generate new members from the Active Desktop is to have the other big media companies on the desktop promote AOL as the way to connect to their content PointCast is the only company who has signed on so far, but MS is looking for some media heavyweights to fill out the list. They said that they are looking for between six and fifteen "partners" to feature as premier content providers.

Windows Database
Microsoft has a 12MM+ name database that the Windows group controls. They are willing to give us their names in exchange for promotion of Windows 95 to our 3.1 members (the exchange rate is pending). This can be accomplished in a number of ways including pop-ups, the AOL for Windows 95 upgrade area, remnant ad space, "What's hot" buttons, the Steve Case letter, etc We are currently discussing merging their list with ours to determine the number of net names and offering them one AOL impression for one MS name With a few pop-ups to 3.1 members we could get their entire list. In addition to the acquisition benefits, this would give us a little margin, although we may be taking pop-up space from higher grossing products

Internet Referral Server
MS has an Internet Referral Server that is getting in the neighborhood of 10-15 thousand hits per day (approx. 750 regs per day across all providers) These people are connecting from the Windows 95 desktop by clicking on "The Internet" icon If they do not have an Internet connection established when they get the machine or install the OS upgrade, they connect with the server and are shown a list of providers in their area. We are working to get AOL added to this server in exchange for bounties. There are no printed materials, so the only costs are bounties and a dedicated server and modems. We are exploring these costs and the acquisition potential for this vehicle.

Microsoft.com/Windows 95.com promotion
We are discussing placing an AOL banner on several Microsoft web pages that would promote the AOL service and its support and use of Microsoft technologies (IE, ActiveX, etc.). Clicking through would take the user to either an AOL download site or the aol.com page where we more explicitly promote the service and offer client downloads.

I had discussions with their IE folks when I was out there in December and they are supposed to give me feedback when we get back together the week of the 20th.

Distribution of AOL with Other MS Products
Needless to say, Microsoft produces many products besides Windows 95 and we are interested in bundling AOL with almost all of them. We haven't had any discussions with them about this yet, so there is not much to say. Office is obvoiusly a big seller, as are several of their consumer titles (Flight Simulator, Golf, etc.) The next time we get out there (looks like later this month), we will try to set up meetings with the various groups that control these products.

Mario

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