GOVERNMENT EXHIBIT
818
PENGAD-Bayonne, N.J.

Subj: Fwd: Why AOL Should Do a Netscape HTML Engine Deal
Date: 97-08-26 23:57:37 EDT
From: Jayrapp
To: JStocks5

if i didn't ask you to print this already, could you please print it

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Forwarded Message:
Subj: Fwd: Why AOL Should Do a Netscape HTML Engine Deal
Date: 97-08-26 21:32:50 EDT
From: DKRJJ
To: SherriHig
CC: Jayrapp

Sherri — please print and bring to me.

Bill — please call me in the morning asap — it is important.

David

Forwarded Message:
Subj: Why AOL Should Do a Netscape HTML Engine Deal
Date: 97-08-25 23:25:31 EDT
From: Wjhawkins
To: DGang
CC: Appelman, SGJohnson, Cipione, MConnors, DKRJJ

Problems with MS Relationship

A strategic alliance with NS would enable AOL to address the following problems with our current relationship with MS:

- MS is not interested in distributing AIM.
- MS HTML browser/authoring story is not a synchronized, cross-platform (Win32, Win16, Macintosh) story.
- MS IE4 browser is huge (15MB+ compressed) and is tangled up with OS in Win98 product.
- MS IE4 browser requires significant RAM (~12MB).
- MS HTML authoring engine does not support key features like tables (even on Win98).
- MS HTML browser/authoring engine lacks many ease-of-use features, including integrated spellchecker, email filters, and dynamic fonts.
- MS has weak "open standards" story.
- MS "push" story is Win98-only.
- MS NetShow product is midband-oriented, and directly competes with narrowband-oriented ARTdoc.
- MS continues to grind away at making MSN successful competitor to AOL, especially at midband level.

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NS Technology Main Deal Points

- NS and AOL work together on NN4/NC4 source codebase to build a "lite" (~3MB), cross-platform (Win95, Win3, and Macintosh), embeddable HTML browser/authoring engine that is deployable across the AOL messaging services (including email, message boards, news, chat, and IMs). This "lite" HTML engine will be hosted using public IE interfaces, and, will support applicable ART and ARTdoc-related standards.
- Derivative works related to this embeddable HTML engine will be turned over to Netscape for mandatory inclusion in source codebase for main NN5/NC5 product line.
- AOL makes no commitment to either distribution or announcement of this technology.
- AOL and NS agree to study the use of this technology as basis for new AOL "lite" or "college" type products. (Or, to adhere to AOL/MS OLS contractual guidelines, perhaps GNN could be relaunched as "Get Netscape Navigator"!)
- AOL and NS study deployment of cross-platform NN4/NC4-based Netcaster technology.
- AOL and NS study deployment of AIM-based messaging services for NS NN5/NC5 products.

Issues

- NS has Already Partially Componentized Some Parts of the NN3/NN4 Codebase, and, NN6 is Planned to be Full Componentized: NN3 supports editable HTML mail, which is handled in a NN3/NN4 sub-window. Moreover, NN6, parts of which are already under development, and which NS plans to ship "a year or so from now", is to be the first fully componentized NN release. However, this NN6-timeframe componentization story is probably a case of "too little too late", and it is questionable whether AOL should gamble and wait for this NN6 release, which is probably almost 2 years off.

- NS Hearts and Minds Must be Committed to NN4-based HTML Engine Componentization: NS must shift gears from their NN6-based componentization story and realize that, for a number of reasons that are independent of any deal with AOL, they must build an embeddable HTML engine ASAP. Firstly, there are other key MS competitors who wish to produce distinctively branded HTML-based applications. For example, Intuit was recently forced to sign up with MS for embedded HTML technology, but would much rather work with NS technology. Other key MS competitors like IBM/Lotus and Corel also desperately need embedded NS HTML technology. Secondly, there are many larger corporate NS customers who wish to produce distinctively branded applications (e.g., Fidelity). The bottom line here is that if NS does not have the political will to take on this push to fully componentize their NN4-based technology, irrespective of any business relationship with AOL, then it will difficult to make this HTML engine deal work – especially given AOL's current near-term contractual commitments to MS and our current lack of clarity about any distribution strategy for NS components.

- NS Needs to Clone MS IE4 Interface for their Components: NS should clone the DOCOBJ ActiveX interface that embedded IE uses. This interface is fully documented in the IE SDK. Using this approach, NS components could install seamlessly in environments where embedded IE is running (e.g., AOL and Intuit). However, there are still rumblings within NS engineering that NS should not produce ActiveX components. This would be a non-starter for this deal, as it would greatly complicate various aspects of the engineering plans (most notably, the QA cycles, which are relatively well-understood for IE-like components). Obviously, AOLT can add tremendous value here in assisting NS with its efforts to produce a generic replacement for embedded IE technology utilizing the public IE hosting interfaces.

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Details

- Need for AOL/NS Joint Development Agreement: This product should be based on a JDA between NS and AOL involving (hopefully minimal) AOL dollars and not insignificant AOL engineering commitment. Simply paying NS to produce generic HTML components would not enable AOL to: 1) closely track NS technology strategy via source code access (cf. current AOL/Microsoft situation) and 2) properly deploy applicable ART, ARTdoc, and AIM standards throughout NS technology. Note that, independent of any AOL/NS distribution strategies, AOL/NS JDA work should proceed on all platforms, as the vast majority of NS code is cross-platform – this cross-platform codebase would give AOL an HTML "safety net" if the AOL/MS relationship deteriorates.

- Time Estimates To Build Custom HTML Engine DLLs From NS Code Base: Maximal commitment: 4-5 senior NS engineers, 4-5 AOL engineers for each of the Wintel and Macintosh platforms (8-10 total), working 4 months to get to Beta, working 2 more months to ship (4/6 months total). Minimal Commitment: 2 senior NS engineers, 1-2 AOL engineers for each of the Wintel and Macintosh platforms (2-4 total), working 9 months to get to Beta, working 5 more months to ship (9/14 months total). Note that this minimal commitment runs into the theoretical NN6 ship date noted above (see Issues section).

- NS has Much Smaller Disk Footprint: Full NS Communicator 4.0 is ~6MB, trimmed down version should be ~3MB. Currently, smallest version of IE4 is ~14MB. NB: ~85% of IE4 full installation goes in the Windows directory – given these IE4-OS interdependencies, it might be very difficult for MS to ever build a "lite" version of the IE4 technology!

- NS has Lower Memory Requirements (Working Set Size): Full NS Communicator 4.0 memory requirement is ~8MB. Currently, IE4 memory requirement is ~12MB.

- NS has Synchronized, Cross-platform Product Releases: NS Communicator 4.0 shipped with functional parity on all platforms (Win32, Win3, and Macintosh) within 3 weeks of each other in June 1997. By contrast, IE4 and the HTML edit control for Win3 and Macintosh are dramatically different from corresponding Win95 products in their current Betas, with very limited features (e.g., no Dynamic HTML). The NS strategy of attacking MS with rich, cross-platform, HTML engine could be

quite successful, especially with AOL's participation.

- NS has Cross-platform Webcasting: NS Netcaster can webcast to all desktops (Win3, Win95, Macintosh, and Unix). It should also be possible for AOL to utilize NS Netcaster technology for cross-platform webcasting, though further investigation is necessary. There are many interesting opportunities here for AOL and NS to work with OEMs to produce immersive desktop environments.

- NS has Rich HTML Authoring Environment, Including Tables: MS HTML edit control does not support table editing. This is a major feature dropout, as tables are central to flow-control in WWW documents, and are used to effect multi-columns, sideheads, and many other key publishing features. Tables are also central to the dissemination of statistical data, including sports statistics that are central to sports betting. By contrast, NC4 users (including the 5+ million participants in the NS In-Box Direct program) will be able to edit/forward almost any part of any HTML email document. Moreover, the NS HTML authoring environment is expandable/customizable via Composer Plugins, and both NS and ISVs will ship Composer Plugins (e.g., stationery, thesaurus, and image map editor). The ability to clone content from rich HTML email/news documents will probably be central to turning ordinary users into IPs, and NS has an advantage here.

- NS has Many Unique Ease-of-Use Features:
* Integrated spellchecker (IE4 seems to require MS Office spellchecker!).
* One-button publishing, which publishes associated files with document (MS requires multiple steps for "wizard").
* Drag-and-drop of images, URLs, bookmarks, etc.
* Send/receive of AppleSingle and AppleDouble.
* Display of and reply to HTML email attachments.
* Dynamic, scaleable fonts.
* Multiple simultaneous connections.
* Flash-free rendering engine.

- NS has Stronger Standards Story:
* NS supports 100% Pure Java. MS has pledged not to fully support JDK v1.2. NS supports the RMI, JNI, and BeanConnect Java standards.
* NS and Sun/JavaSoft are together working on rich Java UI environment.
* MS has divide and conquer strategy for Java: MS will support Java language, but, will attempt to hijack Java execution environment by linking Java to their Win32 operating systems via JDirect.
* NS JavaScript standard is widely supported. NS supports JavaScript1.2, while MS trails with an incomplete version called JScript.
* NS supports standards-based Dynamic HTML and makes it available to the largest possible audience (Win32, Win16, Mac, and Unix).
* NS supports IMAP4 email/connectivity standard.

- NS has Stronger Security Story: NS security story is founded on a granular trust model: the user or the administrator can designate a very precise trust level for a particular signed object (e.g., applet).

- NS has 70+% Market Share: In the past year, MS has only slightly eroded the NS market share. And, it is not clear that IE4 sufficiently reduces switching costs to make users leave NS platform. For example, IE4 is still nowhere near pixel-compatible with NN3-based HTML de facto layout standard – this creates problems for IPs who wish to ensure layout fidelity of their content. If NS is able to secure key OEM bundle deals for Win98 platform, they might be able to maintain market share lead, in spite of MS onslaught.

– Bill

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