Bill Gates

From: Dan Rosen[SMTP:drosen]
Sent: Thursday, June 22, 1995 4:28 PM
To: billg; nathanm; paulma; peteh
Cc: abay; bens; bfox; bobmu; bradsi; chrisjo; jallard; jimall; johnlu; petern; ppathe; russs; rwolf; stevesi; thomasre; warrend
Subject: Netscape meeting

SUMMARY
Seven of us met with Jim Barksdale (CEO), Mike Homer (VP Marketing), Mark Andreisen (CTO), and Ram Shiram (VP Business Dev) of Netscape for four hours yesterday. The purpose of the meeting was to scope out specific areas that a relationship between the two companies might take and to set in place a process to either conclude a strategic relationship or go our separate ways.

Our goals going into the meeting were (in priority order):
1. Establish Microsoft ownership of the Internet client platform for Win95.
2. Have Netscape add value to the NT server and Back Office platform (above our stuff), making it the preferred Internet solution.
3. Have Netscape preferentially support Microsoft authoring tools/solutions and support our viewers
4. Send a message to the marketplace that Netscape and Microsoft were cooperating on Internet issues.

In general, it was a sounding out of each others' positions. They were unwilling to share their three year business direction in any specificity (we weren't sure that they had one). They asked a lot of the right questions of us. I believe that we understand each other better.

ChrisJo summed up the purpose nicely: "We need to understand if you will adopt our platform and build on top of it or if you are going to compete with us on the platform level." All of the Netscape players were clear -- they want to build on our platform as a first preference. They understand that we are going to incorporate into the platform (independent of any relationship with Netscape) technology that they provide today; they want to know what is in the platform and understand that we won't arbitrarily pull their most profitable stuff into the platform. Much of the conversation centered on a discussion of how the lines would be drawn between the platform and their value added. On the client end, we discussed "sucking most of the functionality of the current Netscape browser (but not the toolbar, cool places or advertising) into the platform; they seemed OK with this concept. On the server, JAllard asked about pulling most of the functionality of their commerce server into the platform, and again they indicated a willingness to follow our direction. Joint marketing programs were discussed as a potential "carrot". ChrisJo and JAllard took the action to get back to them with follow up on what is in the platform, and internal Microsoft proposals of terms and conditions required.

They shipped a beta of their Win95 client this week, and have announced their NT server product. They positioned this with us as "being closely tied to Microsoft direction". Members of the MS team have also interpreted this as Netscape's attempt to keep ahead of our efforts. We need to quickly outline the terms that would give us rapid

GOVERNMENT EXHIBIT 35
MS98 0009589
CONFIDENTIAL

indication of their intentions. Each of the team members will take the actions outlined in this memo and feed them back to me for a consolidated agreement with Netscape, hopefully within three weeks.

They also were concerned about MSN. They believed that MSN was a closed environment and that they couldn't add any value on MSN. ABay explained our openness and took the item to (a) look at the feasibility of the Netscape client being an MSN client; (b) look at the Netscape server being able to server MSN customers on MSN; and (c) look at allowing the Netscape browser sign-up mechanism work with MSN for IP service.

RWolf demonstrated DocObject and talked about authoring. They are interested in continuing their support of OLE and using DocObj. They seemed to believe that DocObj solves many of the problems that had them considering OpenDoc. We should quickly propose a deal that gives Netscape DocObj containment in exchange for them agreeing that DocObj is the only way to plug in viewers and editors on the Netscape browsers. They would also like to become an Office Compatible app. RWolf owns the follow up.

BFox discussed current status of STT discussions. They acknowledged that they have been slow, but want to move faster. They are concerned about licensing terms and p ing. They have a near term decision, so we must act quickly. Bfox has the follow-up with WarrenD.

Jim Barksdale and I had a discussion on a potential MS investment in Netscape. They don't need the money and fear (a) a disruptive MS presence on their board; (b) the effect of dilution at a time when they are contemplating the timing of an IPO; and (c) the message a MS investment would send to others. He wanted to know if the above deals were conditional on equity; I said "loosely conditional". We will talk again in a couple of days as we consider the options.

CONCLUSIONS
The critical question is: Do they want to align strategically with us or not? Are they willing to bet that we will be successful, and will they make the commitment and changes necessary in their strategy to align with us?

The test of this alignment will be Netscape's agreement to use Microsoft's client code on Win 95, and use our BackOffice and NT API's, and promote these as their preferred solutions. If we can achieve this alignment, we have a deal. One clear challenge will be definition of how they add value on top of our client platform in particular.

In the meeting, they seemed to embrace this strategy, both for Windows95 and NT. However, they also tried as much as possible to preserve their right to be open - in technology, cross-platform, and relationships with others. We did not have specific proposals to test their intentions. We must quickly generate specific proposals assess their direction.

If we discover that they do not agree to do align with us, then we should simply treat them as an ISV. They are an ISV today, with a majority of the Internet browser business today. It was clear that there are ISV arrangements that benefit both companies, regardless of any larger deal. These include Netscape licensing STT, becoming Office compatible, adopting DocObject, supporting our formats, etc.

MS98 0009590
CONFIDENTIAL

Whether we succeed in forming a strategic relationship with Netscape or not, it is essential that we commit resources to developing and delivering our Internet strategy. Netscape will have to follow if we set a strategy and execute quickly on it. This means staffing and supporting:

- Platforms - both client and server.
- Tools/Solutions - both bundling and developing code that leverages our platforms.
- Services - billing, IP access to MSN, etc.
- Marketing/Relationships/PR - a team who owns MS Internet message and understands what customers want in a Microsoft offer.
- Recruiting - targeted campaign to staff these positions with the most talented people

ACKNOWLEDGMENT
Thanks to Anthony Bay, J Allard, Barb Fox, Chris Jones, Thomas Reardon, and Richard Wolf for their participation and good ideas. I suspect that I will not adequately represent their clear thinking here.

MS98 0009591
CONFIDENTIAL