Date: Sun, Jan 21, 1996 1:06 PM EDT
From: NaviSoft
Subj: GatesWorld
To: Steve C, Leonsis, Zgi, Jan Brandt, LenL, Audrey, NOVACKK, DKRJJ, DGang, Lisagansky, Appelman, Hawkland, LDobyns, MConnors
cc: TLWaldo, NaviSoft

Posted on: America Online (using MAC (0cb3))

All:

My impressions of Thursday's session with Gates, Brad Silverberg, John Ludwig, Brad Chase, Chris Jones, Ben Slivka et al:

1) As expected, they have an amazing array of cool Internet centric technology "under development". They alledgedly have 700 developers focused on efforts ranging from the Explorer (based upon the Spyglass code) to Shellview, a very powerful framework for linking and embedding VB Script, web pages, & OLE enabled applications. They have thoughtfully architected their desktop systems by blending their systems, applications and language know-how. Their Active VRML demonstration (with real enough time graphics processing) underscored the unique advantages they have as the purveyors of both the language and the underlying system software. We did not see any of their advanced server work (although Barry & Hawkins stayed in Seattle to probe under the sheets with Silverman & Ludwig).

2) Netscape was positioned as a company that merely sells free software with severe architectural handicaps (monolithic vs. modular, html based vs. file based). They are right. Further, they believe these flaws will ultimately (and inevitably) result in Netscape's demise. Thus, go with the team that not only has better technology and products, but has the size and commitment to make them stick.

3) Gates delivered a characteristically blunt query: how much do we need to pay you to screw netscape?? ("this is your lucky day"). His implied that he was essentially mediating a dispute between Case and Siegelman ("this meeting is no more difficult than talking with Russ about his

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Win95 relationship"). The offer: He pitched the idea of AOL merely instructing potential members to enter a short string of characters to invoke the AOL client in Win95 (probably via a remote access call--thus requiring only a few hundred bytes of code). He added that we could have "total freedom" to use the windows registered user list and that he could make "a significant long term commitment" to buying advertising from AOL. However, the windows box itself is "sacrosanct". No way AOL could drop the entire client into windows for distribution. Re: technology, AOL can access to everything at no charge for a couple of years, plus influence development and place AOL employees on the msft campus. He said the only real question was if AOL intended to support Windows, if so time to wake up and go where the power is.

4) Steve distinguished between bundling the AOL client with windows and PROMOTING the AOL client a la MSN. Also questioned the stability of any relationship with msft given the fact they are "#1 competitor". We raised the possibility of collaborating in several other areas: ANS as a primary access provider (Gates said the UUNET 10-K discloses the term of this agreement), joint programming in local markets (City Scape & Digital City), and possible cooperation in international markets. Gates seemed open to the ANS relationship (particularly if we could meet Compuserve's prices in Europe!!), but not responsive to the other suggestions. Bottom line: we can probably get on the order of tens of millions in advertising and promotion dollars, but a tight coupling with Win95 is not in the cards.

5) Interesting to note the contradiction between their claim of manifest destiny re: winning the internet software battle, and their eagerness to bring us into their fold. In terms of timing--we are absolutely of greater value to them post-Netscape, as a decision to shift from Netscape after a public alliance is even better that a pre-emptory strike today (deployment issues aside). Msft is clearly feeling vulnerable over the next year so.

6) Msft marketing strategy re netscape is simply to bundle increased functionality into their existing product lines and turn the screws on their channels.

7) Msft strategy re: online services is to wire MSN into their applications to increase switching costs and bundle with systems products to decrease

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distribution costs.

8) There is a great deal of room to cut a deal with msft (we may need to if Netscape remains obstinate): a) we can likely get a longer term technology license with bell and whistles to maintain currency; b) a long term advertsing contract at 20mm plus; c) a commitment to bundle (but not promote) in the Win95 box.

9) The essential NS proposition is that they get out of the online services business and we get behind their struggle for survival. Thus, a stable partnership. From time to time NS fails to recognize this. A delay in our negotiations may help them to understand.

10) We agreed to talk with Gates again prior to a Netscape decision and announcement.

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