Referral Server Business Plan

1/26/98

Jalvarez@

PENGAD-Bayonne, N.J.
GOVERNMENT EXHIBIT 425

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IE Referral Server Summary (12/97)

Situation in US

- 12 ISPs (10 free month offers)
- 70% average retention rate
- 757K visits/m; 8.6 MM impressions
- 22.7K net signups in Dec. 97
- 3 % net signup rate

Objectives

- 1 MM visits/m; 5 % signup rate (6/98)
- 100% partner reporting

Strategies

- Build "Get Connected (with IE)" brand — Win 98.
- Consolidate multiple referral channels

Tactics

- 56K promotion
- Activate IE and OEM promos

Issues

- ICU AM attrition

	Impressions	Click Through	Signup Rate
ATT	740,433	4.2%	2%
Prodigy	739,211		
MCI	770,991	1.3%	0.4%
NETCOM	739,211	0.6%	0.1%
Earthlink	739,997		
Concentric	537,846	1.1%	0.3%
Sprint	739,211		
Mindspring	631,174	0.8%	0.1%
SpryNet	757,713	1.3%	0.4%
IDT	755,101	0.5%	0.1%
Brigadoon	732,569		
MSN	739,193	5.0%	1.4%
Total visits	756,738	14.8%	3%

15

-30% Loss Factor.

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IE Referral Server Analysis

	Subscribers (K)	Monthly Growth	% RS	IE share	IE Run Rate	% share
ATT	1,000	75	17%	58%	60%	3.3%
Prodigy	805	15	0%	23%	100%	2.7%
MCI	275	20	16%	95%	75%	0.9%
NETCOM	580	10	7%	20%	10%	1.9%
Earthlink	400	16	0%	35%	5%	1.3%
Concentric	250	7	20%	20%	20%	0.8%
Sprint	250	30	0%	25%	100%	0.8%
Mindspring	287	26	3%	90%	95%	1.0%
SpryNet	300	30	10%	35%	95%	1.0%
IDT	75	3	18%			0.3%
Brigadoon	20	3	0%			0.1%
MSN	2,000	75	14%	100%	100%	6.7%
	6,242	310		28%		29,872

→ OCS folder delivers 10K signups.

	Subscribers	EU Share	IE Share
AOL	11,400	38%	92%
Compuserve	2,000	7%	45%
RS ISPs	6,242	21%	28%
Erols + GTE	550	2%	17%
RBOCs	545	2%	5%
Depth ISPs	1,535	5%	
Breadth ISPs	7,600	25%	18%
	29,872	100%	50%

14% Share – NO MSN, AOL, AT&T
– At risk with "Funky" plan.

Based on above analysis (12/97):

- IE has 76% of the Run Rate of RS ISPs
- * RS ISPs have 21% of EU share (IE share is 28%)

Recommendations

- Increase % RS signups to top RS partners
- Use RS leverage to drive switching programs
- Consider shift of value from MSN to RS partners

Top RS Partners

- ATT, Prodigy, NETCOM, Earthlink, Mindspring, MCI, Spry, Concentric, Sprint

Switching Opportunity Partners

- Prodigy, Sprint (NETCOM, Spry, Concentric, Earthlink)

Satisfied RS Partners

- ATT, MCI, IDT (Concentric, NETCOM, Spry)

Partners to add to RS

- Erols, GTE

Partners to phase out from RS

- IDT, Brigadoon

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Susan
Mike Delman) Biz model for Win98 R.S.

IE Referral Server Opportunity

Assumption: 660K new dial-up users in Dec 97

Situation

- IE mktg goal: 75% of new dial-up growth run rate is IE
- 66 % IE run rate with AOL, MSN and ISPs in RS
- Requires minimum of 39% run rate from other ISPs

Opportunity

- Ensure majority of depth ISPs run rate
  - Add regional tier with depth ISPs
- Switching programs with top Netscape Referral partners

Issues

- Add depth ISP tier now vs Windows 98
- RS signups are still low (RS gets only 5% of new dial-up signups)
  - Why? No end user branding

Recommendations

- Focus on increasing signups to RS via ICW/RS branding
  - End user campaigns
  - OEM
  - ISV/IHV bundles
  - Other non-ISP distributions
  - IE Plus (ICW/RS branding vs ATT and MSN offers)
  - Activate IE (include ICW/RS branding for new users; can also contribute to capture ISP switchers)
  - IE CD
- Consider shift of value from MSN to RS partners
  - Could be opportunity to add RBOCs
  - Now vs Windows 98 timeframe ?

Dial-up Growth by Provider

	Run Rate	RR Share
AOL	200	30%
MSN	75	11%
ISPs in RS	235	36%
Other ISPs	150	23%
	660	100%

Dial-up Growth by Signup Channel

	Run Rate	RR Share
OLS folder	60	9%
RS	32	5%
MSN icon	24	4%
NSCP RS	68	10%
DM/Other	476	72%
	660	100%

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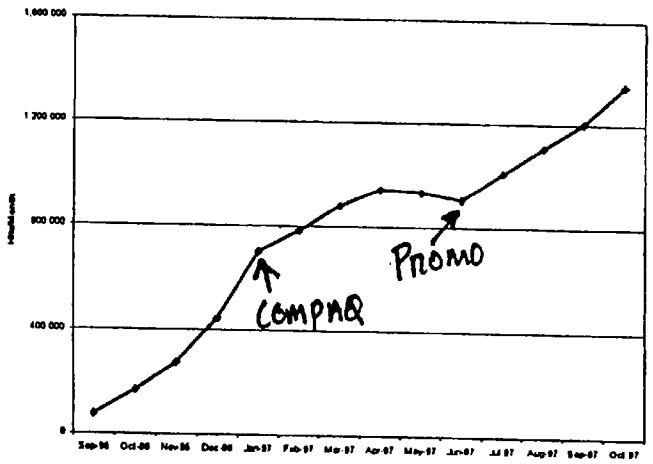
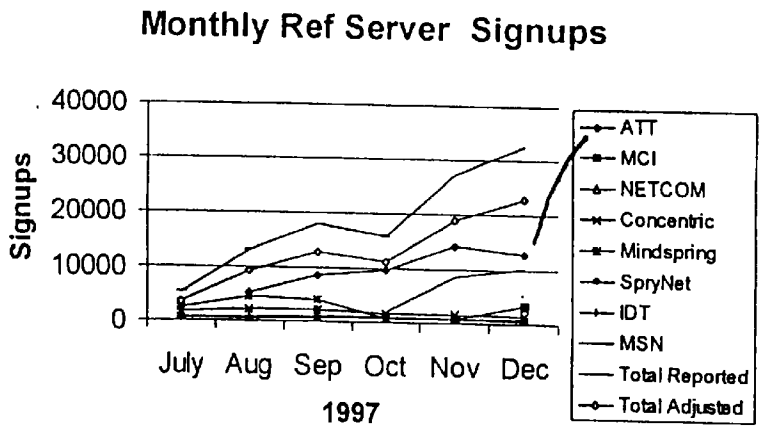
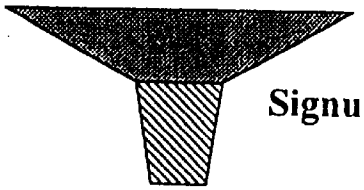
IE RS Performance





IE 4.0	ICW Hits (US - 12/97)	Total
108,776		756,738
18,412	Signup Hits	106,794
5,088 (4.7 %)	Signups	32,480 (4%)



Key Drivers

- ICW awareness by end users
- ICW promotion by OEMs

- ICW usability
- Phone book d/l time
- ISPs provide reporting

- ISP signup server usability
- ISPs provide reporting

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Get Connected with Internet Explorer at 56K

Problem

- New user: Difficult to find x2 ISP provider
- Switcher: No easy online mechanism to switch to 56K ISP
- New 56K standard modems available around mid February

Solution

- New user: Can install IE4 bundled with modem and use ICW
  - If IE4 is already installed, user just needs to run ICW
- Switcher: Can switch to IE4 bundled with modem and use ICW

Potential Opportunity

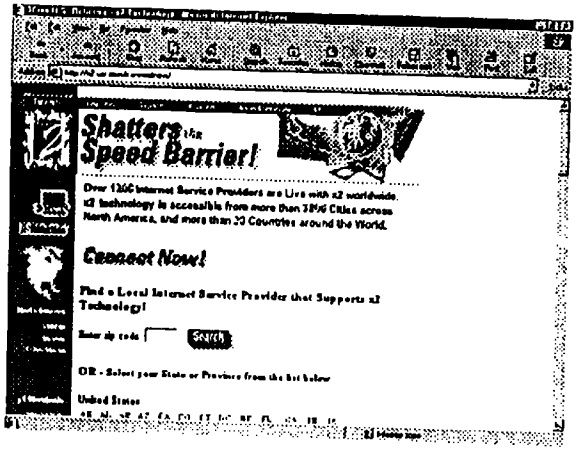
- 10 MM modems distributed in CY98
- 10%(+6%) uptake or 1 MM IE4 users (new, switchers, upgrades)
  - Requires both USR and IE end user marketing support
  - Easy to track and implement using current Referral Server infrastructure

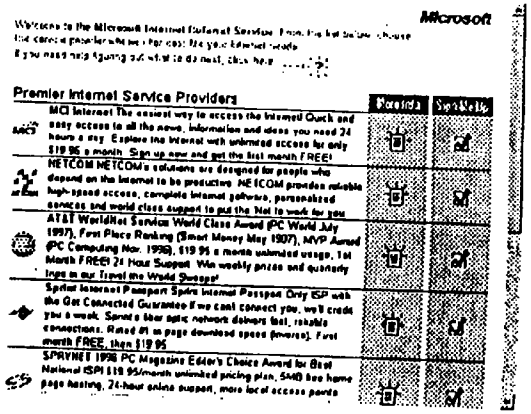
USR Proposal

- Option 1: promote ICW/RS branding
- Option 2: 56K referral server
- IE "Need for speed" promotion

Next Steps

- Sign MOU
- Evaluate other promotions
  - USR breadth ISP partners





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OEM Promotions

Situation

- OEM-ISP deals shortcut Referral Server
- Compaq deals: Erol's and AT&T
- Gateway entered ISP business

Objectives

- Integrate OEMs in Referral Server business model
- Drive ICW awareness and IE4 signups

Strategies

- Pay for performance
- Co-marketing

Tactics

- Activate IE
- New promotions with Compaq or PB

Get Online with Compaq and Microsoft Internet Explorer

(7/97 to 12/97 promotion)

Payments for End User Signup	Agreement	Earned
Presario	$ 3.00	$ 3.00
Armada	$ 1.50	
Deskpro	$ 0.50	$ 0.50
Press Release	$ 1.00	
Home page logos	$ 1.00	
Bezel button	$ 0.25	$ 0.25
Packaging	$ 0.25	
Mktg materials	$ 0.25	
Total Earned	$ 7.75	$ 3.75

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Netscape Referral Services

Dial-up Referral Server

- 25k to 50k new users/month
  - Assumes high conversion rate based on 50-70K browsers sold via retail channel
- Concentric: 5k new users/month vs 1.4k new users on MS Referral Server (90% dial-up and 10% ISP switchers); Top Netscape ISP partner with Virtual Office in Netcenter
- Average $15/referral (vs $30 for IE RS)

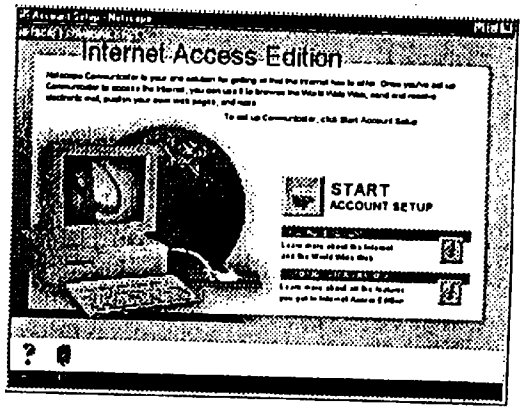
Online Referral Server

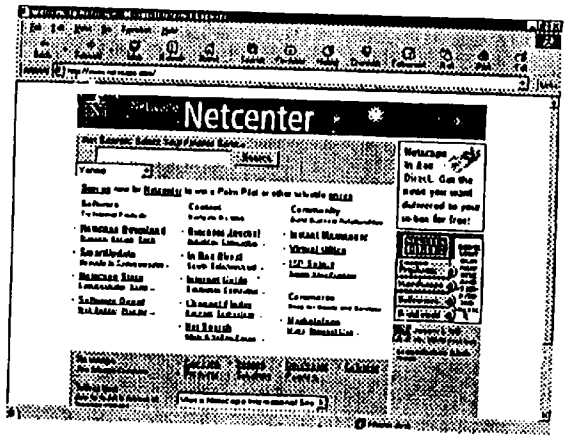
- Only for users that want to switch ISP
- Link in Netscape Home Page

US and Canada only

- Local Bell Internet Providers: Ameritech, Bell Atlantic, BellSouth, PacBell and Southwestern Bell
- National Internet Providers: Concentric, Earthlink, Netcom, Sprint and SpryNet

90%





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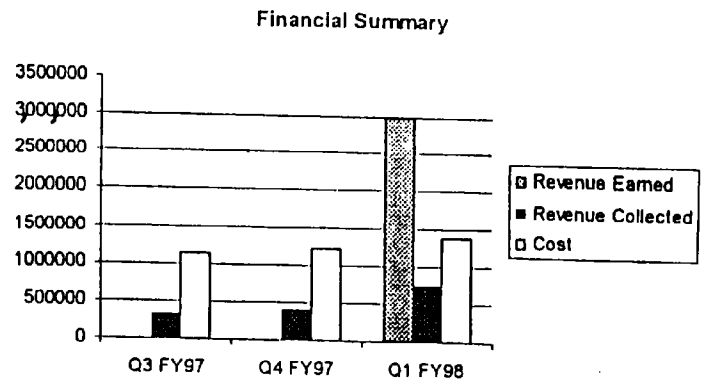
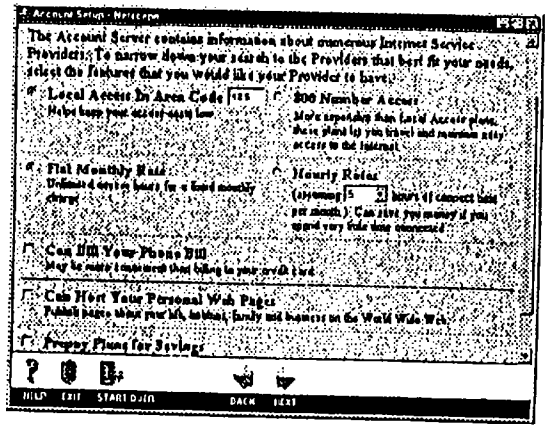
RANDY HAAS.

Next Steps

- **Quantify revenue not collected per account**
  - Work with new controller after 2/15
- **Improve reporting**
  - Get all royalty reports
  - Full online reporting (66 % US; 20 % Int'l)
- **Windows 98 Plan**
  - Referral Services agreement
  - ISP differentiation model





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US Account Summary

RS	Q1 royalty reports	Online Reporting	Agreement Start	Agreement End	Comments
ATT	yes	yes	8/31/96	8/31/98	
Prodigy	no	no	1/8/97	1/8/99	
MCI	no	yes	7/29/96	7/29/98	
NETCOM	no	yes	7/23/96	7/23/97	expired
Earthlink	yes	**no**	8/16/96	8/16/98	
Concentric	yes	yes	3/26/97	3/26/99	
Sprint	n/a	no	8/28/97	8/28/99	
Mindspring	no	yes	9/5/96	9/5/98	
SpryNet	yes	yes	8/27/96	8/27/98	
IDT	no	yes	9/13/96	9/13/98	
Brigadoon	no	**no**	8/15/96	8/15/98	
MSN	n/a	yes	n/a	n/a	
OLS Folder	Q1 royalty reports	Online Reporting	Agreement Start	Agreement End	Comments
AOL	n/a	n/a	3/12/96	2/15/01	
Compuserve	?	n/a	6/3/96	Jun-98	sec. 14.4
Prodigy	?	n/a	1/8/97	1/8/99	

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PROPOSED Windows 98 RS Tier Model

		weight
Portal Partners	ATT	100 %
	MCI	
	Sprint	(based on telephone area code)
	RBOCs	
	AOL	100 %
ROTATE →	RS ISPs	20 % per ISP (Prodigy, Netcom, ~~Earthlink~~, Concentric, Sprynet, Mindspring
	Depth ISPs	20 % per depth ISP ; 5 depth ISPs per region

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Assumptions:

- OLS folder (at least for AOL)
- No MSN icon on desktop

MS Referral Services Summary

IE

- 71 ISPs in 21 countries

Small Business Server

- 72 ISPs in US signed up
  - Coverage for 171 of 188 target area codes
- 2 ISPs live (Verio and Spry)
- 2 international licenses signed (Germany)

Office SBE (launch on 3/1)

- Currently signing up ISPs (ATT, GTE, Verio)

Frontpage 98

- Referral website with 600+ ISPs and VAPs

ms.com

- MCSP online referral server (10K visits/day)
- Will be used for IE breadth ISP business referrals

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International

Situation

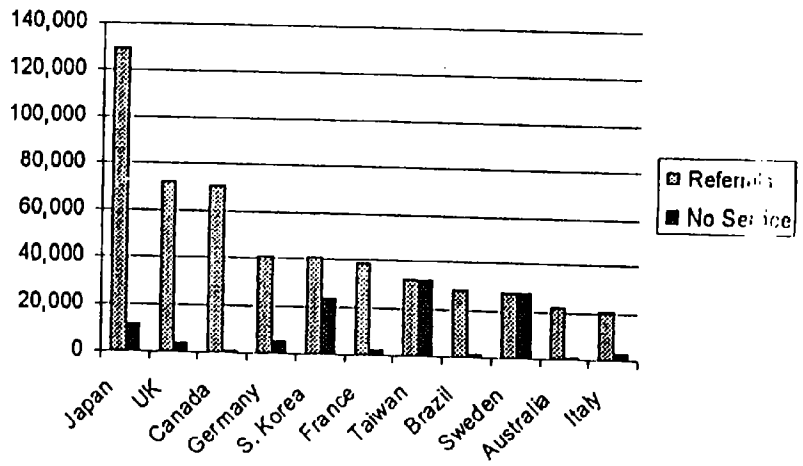
- 59 ISPs in 20 countries

Goals for subs

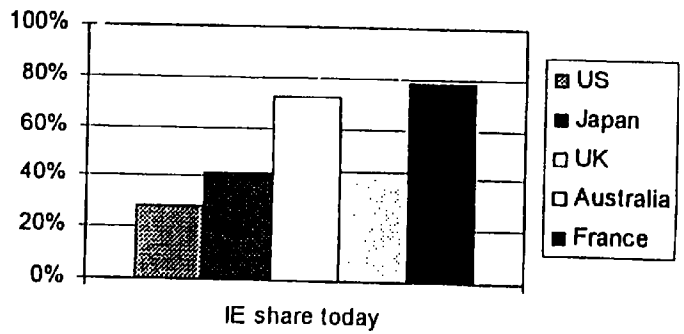
- Get all ISPs to provide reporting
  - Reporting = Commitment by ISPs
  - Online reporting and royalty reports required
- Drive ICW awareness for end users
- Increase value of Referral Server Channel
  - Increase Monthly Ref. Server Signups as percentage of New Users getting connected to the Internet in your Country
  - Maximize IE share in RS ISPs
- Support ISPs on Referral Server
  - Designate SE to verify ISP signup servers

Issues

- Low telephone area code coverage
  - South Korea, Taiwan and Sweeden
- Rely on single RS phone number
  - Netherlands, Austria, Ireland, Finland, Brazil, Hong Kong
  - Denmark, Belgium, Greece, Indonesia, Norway, Singapore



IE Share in RS ISPs (12/1)



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ISP Referral Fees (IE)

- < 15,625 new monthly subscribers
  - **$50**
- 15,625 to 31,250
  - **$45**
- Discounts
  - **$5 for 2+ ActiveX controls in the home page**
  - **$5 for using Windows NT Server and IIS in home page**
  - **$5 for using FrontPage server extensions in hosting service**
- Upgrade Discounts (first 180 days)
  - **$3 per copy IE (inc. OE) distributed in external media**
  - **$1 per copy distributed via download**

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CUSTOMER NAME	Report due 11/14/97		Revenue	Report due 2/14/98		Revenue	Remarks
	report	inv		report	inv		
Access One Pty Ltd.	yes			yes			
ASCII Internet Exchange Service	yes			yes			
Asia On-Line Limited	no			no			
AT&T Corp.	1/9/98	1/9/98		yes			700K CD * $3 credit
AT & T Jens Corp.	12/26/97	12/26/97	33,948.00	yes			
BR Homeshopping	yes			yes			
Brigadoon.com, Inc.	yes			yes			
British Telecommunications PLC	10/16/97	10/16/97	42,280.00	yes			
Clear Communciations Limited							
CompuServe Incorporated (SPRY)	1/8/98	1/9/98	42,725.00	yes			
Concentric Network Corporation	11/18/97	11/24/97	158,410.00	yes			
Datacom Austria Aktiengesellschaft							
DACOM	1/13/98	1/15/98	see remarks	1/13/98	1/15/98	7,150.00	Revenue for the period July-December 1
Demon Internet Limited							
Digex, Inc.	yes			yes			
Direct Tech, S.A. de C.V							
Earthlink Network, Inc.	11/14/97	11/20/97	123,000.00	yes			
Easynet Ltd.	yes			yes			
Escort-Net Ltd. Sti							
Eunet Deutschland GmbH	yes			yes			
France Telecom Interactive S.A.							
Fujitsu Limited	12/15/97	12/16/97	40,526.00	yes			
Global Internet	11/14/97	11/25/97	72,695.00	12/19/97	12/23/97	84,420.00	
Global Internet Access							
GTE Intelligent Network Services							
Hellas On Line							
Hong Kong Star Internet Ltd.	yes			yes			
IDT Corporation	yes			yes			
Imaginet SA							
INET Technologies, Inc.	10/21/97	10/21/97	1,575.00	yes			
Internet Initiative Japan Inc.	12/17/97	12/18/97	4,450.00	1/21/98	1/23/98	2,875.00	
Istar	yes			yes			
Italia On-Line SPA	yes			no			
JC Hyun Systems Inc.	yes			yes			
KDD Communications Inc.	11/18/97	11/19/97	24,750.00	1/20/98	1/23/98	23,670.00	
Korea PC Telecom Co. Ltd	no			1/20/98	1/23/98	925.00	
MANDIC	11/11/97	11/19/97	16,835.00	yes			

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MCI Telecommunications	1/14/98		451,680.00	yes			
Mediabank Corp.	11/18/97	11/21/97	34,032.00	1/22/98	1/23/98	41,568.00	
Mindspring Enterprises, Inc.	yes			yes			
Netcom On-Line Communication Services, Inc.	yes			yes			
BT Network Information Service Co. Ltd.	1/8/98	1/9/98	129,360.00	yes			
Nippon Telegraph and Telephone (NTT)							
NowCom, Co. Ltd.							
NowCom, Co. Ltd. (Promotion & Distribution)							
NUTEC	yes			yes			
NTT PC Communications Inc.	11/17/97	11/18/97	22,960.00	yes			
OLEANE S.A.							
On Australia Pty Limited	10/21/97	10/28/97	65,100.00	yes			
OzEmail Limited	12/18/97	12/26/97	17,815.00	yes			
PCB Promotion SA	yes			yes			
People World Co, Ltd.							
Prodigy Services Corporation	yes			yes			
Proxima Information Exchange Ltd.							
PT. Cyberindo Aditama							
Raksnet							
Rimnet of Rapid Systems, Inc.	11/18/97	11/19/97	7,725.00	1/22/98	1/23/98	9,550.00	
SCT World-Net SARL	1/19/98	1/20/98	see remarks	1/19/98	1/20/98	19,575.00	Revenue amount is for the period Augus
Servicom SPA							
Sony Communication Network Corporation	1/13/98	1/15/98	115,800.00	yes			
Springboard Internet Services							
Sprint Communications	no			yes			
Swiss Online AG	yes			yes			
Tele Danmark Internet A/S							
Telecom Finland	yes			yes			
Telecom Italia SPA	due on 11/30/97			yes			
Telecom New Zealand Limited							
Telepac Servicos e Telecomunicacoes SA							
The Internet Company of New Zealand	yes			yes			
Tokyo Internet Corporation	12/26/97	12/26/97	8,250.00	yes			
Trans Cosmos Inc.	yes			yes			
UUNET PIPEX							

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