Kristy O'Rell, 12:27 PM 7/9/97 -, Microsoft contract prep for pr

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Subject: Microsoft contract prep for press release
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>From Tom:

I'm going to be tied up in a bunch of meetings until this afternoon and wanted to give you additional information about the Microsoft IE4.0 press release prior being able to talk with you in real time.

At the risk of being verbose, let me give you the background on the situation and tell you what I'd like to see from a press release perspective. Of course, we're going to need to get input from Ellen, Halsey and potentially others as well. As you may know, Microsoft IE4.0 is a new model that incorporates push technology. The browser is still essentially a browser, albeit with a slightly redesigned user interface, but it also includes many new features like better-integrated email. In addition, it also includes a channel bar, which appears as a vertical set of icons that are always on your desktop on the right-hand side of your machine. These icons are a permanent part of IE4.0, and are in effect very similar to the icons that are on your desktop when you boot up your machine (like my briefcase, in box, my computer). Microsoft has been running a process over the last couple of months to figure out who will be in that lineup.

As you might imagine, there's a great deal of interest, since this lineup will show up on all new PC's shipping with Windows 95 and 97, as well as showing up in all of the new versions of Internet Explorer that are shipped out by Microsoft through its various channels, as well as all versions of MS Internet Explorer used and distributed by the ISP's. MS has organized the channel into 12 slots as follows: a channel guide, owned and programmed by MS, which is kind of like a mini-Yahoo that lists the best Web sites on the Web; icons for MSN, MSNBC, PointCast, AOL (we think), and one other content aggregator that could potentially be Excite. In addition to these top level icons, there are also five categories: news & technology, entertainment, sports, family & lifestyle, and one more that I can't remember. There is a 12th unfilled channel which is held in reserve for the PC OEM or the ISP to program with a channel of its choice.

The really big news is that Snap Online has secured a guaranteed default slot in the news and technology channel. The almost as big news is the CNET Red Ball has also secured a channel in the news and technology category. The newsworthiness of these items differs as follows.

For Snap, this deal is all about validation and distribution. I think it's safe to say without overhyping that it is highly unusual for MS to select a product that has not even shipped to occupy one of its coveted "platinum pre-configured Internet content provider" channels in the channel bar. Yes, that is what they are called. They did this based on the strength of the product demonstration we showed them, as well as on the committments that we made to them to promote Internet Explorer. So from a validation point of view, this is a really, really huge win for Snap and if we weren't on the map before, we definitely just got placed on the map. Needless to say, there will be many other services like Yahoo, Excite, Infoseek, Planet Direct, The Mining Company -you name it- that did not get in to this channel lineup despite already being operational and having lots and lots of hits.

The second part of the Snap story is tremendous distribution. Many people have said that the Snap product is really strong, but they actively wonder exactly how it will get distributed. This is a big part of how we're going to do that. While we need to see who else is in the lineup, my guess is that we may be the only other online service besides AOL. That means we beat out Compuserve and Prodigy, as well as companies like AT&T Worldnet. This deal gets us on every single desktop, while the Intel deal would have only gotten us onto certain desktops. This deal does not proclude any deal with the PC OEMs, but it sort of killing all the birds with one stone.

The other piece of the Snap distribution story is that Snap also becomes a very compelling and effective way for a PC OEM and/or an ISP to fill their 12th channel slot. As mentioned previously, they have the ability to place something in IE4.0 that is their "own" thing. The trouble is that many of them aren't sure what to do with this slot. If they make into

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a re-do of their company Web site, it's a safe bet it will really not stay on the desktop very long since it won't be very compelling and will not compete effectively against other offerings like America Online. If I were an ISP or an OEM, I would therefore be looking for a way to really beef up my icon on the channel bar so that people kept it on the desktop (by the way, consumers can rearrange and delete these icons at will. It's not the like the way MSN first shipped, where you couldn't delete it from the desktop. That being said, I'm not sure many consumers will figure that out, and being the default position on the channel bar is a goldmine for PR purposes). Snap can really help the PC OEMs and the ISPs do a much better job at filling their channel slot. In those cases, we would, with them, take the generic version of Snap that sits in the news and technology channel, "promote it" one level up to the top level to occupy the 12th position, and replace it with a co-branded version of Snap and not a generic version of Snap.

In addition, especially for the PC OEMs, we could pre-load the multimedia tutorial and make that a very prominent part of the offering so that consumers would get a really rich introductory experience to the Web. This new co-branded version of Snap is exactly what we've been talking about all along. Bear in mind that it could either occupy the actual entire 12th slot that the PC OEM or ISP has, or it could occupy a "sub-channel" within that slot. In other words, Compaq could create an icon that said "My Compaq" and when you click on that there might a variety of options, one that says "Technical Support", "New Compaq Products," and perhaps "Snap! Compaq". In any case, we really help the partner develop a much more compelling media offering. Obviously in those cases, we would not list Snap twice in the product. This part of the story reinforces what we've been saying all along: we are outsourcing an online service for these companies and have designed it to really address their needs.

Let me switch topics to the CNET Red Ball channel. The spin here is *very* different, and the newsworthiness is frankly higher for MSoft's interest than for our own. It will require some delicate handling, and it's important that questions about the propriety of making that decision do not overwhelm the newsworthiness of the Snap announcement.

Getting RB to build an IE4.0 channel and do the requisite promotional activities is a huge win for Microsoft, primarily because CNET is known as an independent editorial organization that reviews browsers for a living. MS will try hard to spin CNET's inclusion in the IE4.0 lineup as an implicit endorsement by CNET of the IE4.0 technology over Netscape. We must do everything we can to prevent that from happening in the press. As you read through the contract carefully, you'll see that we have taken great pains to avoid any comparative language between MS and Netscape, and any statements that IE4.0 is preferred, best, or otherwise endorsed by the Red Ball organization. That being said, what we are willing to say is that we believe that IE4.0 is an exciting new set of technologies that will allow CNET to deliver compelling experiences to our audience. CNET retains its editorial independence, and nothing in this deal affects that. In fact, the deal specifically recognizes CNET's editorial independence, and makes no restrictions on what CNET can and cannot say editorially about a product, including IE4.0 or other MS products. I know the journalistic community will be very skeptical about this statement, but in fact it's true. Read the contract for yourself. I think it's really important that we do not allow MS or the press to, in any way, believe that we have somehow compromised our editorial ideals.

The one and only reason why CNET Red Ball put the Red Ball channel into the IE4.0 lineup was for distribution. This is very similar to the world you understand, when various editorial organizations will cut business deals for distribution cable systems. Those deals do not compromise the editorial integrity of the product, though they may include some promotional activities. As you read in the contract, we are committing to do some promotional activities, although most of them are activities that we've already decided to do through the leadership of our Ad Sales and Creative Sponsorships groups. Microsoft's original contract called for us to exclusively promote and to declare IE4.0 as our default and our preferred browser and all of that other stuff and we basically convinced them that due to our editorial role in the industry, CNET would not do that. We consider it a huge win that we got MS to compromise on that point.

As part of this, there is no restriction on our ability to develop a Netcaster channel, and there is no restriction on our ability to distribute Netscape products from download.com and shareware.com as we do today. There is a restriction on how we can promote a Netcaster product in our various Web sites. We are willing to make this trade-off, since we are getting distribution benefits from Microsoft that we would not be getting from Netscape. But that does not prevent us from doing a Netscape channel. I suggest you read carefully sections 2 and 3 and Exhibits B and C and make sure you quiz me on exactly what questions this raises in your mind. We have thought long and hard to preserve the reality *and*

perception of CNET Red Ball's editorial integrity, and it is essential during the press frenzy around the IE4.0 announcement that our efforts continue to be a success in that area.

In addition to being a huge win for MS (that carries with it some tricky PR challenges), the inclusion of RB in IE4.0 is also a huge win for CNET, though not as big as for Snap. The reason is that MS will be including other news and technology providers in the default channel in the news and technology category. While we don't know exactly who they are, I suspect that they will include Wired and Ziff. So the good news is that MS in its wisdom has decided that CNET is one of the leading sources of news and technology information. The bad news is that MS believes that there are others who also deserve the same recognition. We do not know the order of the listings, since MS has told us they will be determined randomly. That being said, we are confident that our version of an IE4.0 channel will, of course, be far superior to anything that our competitors may bring to bear.

Ideally in thinking about this, I think the release would be terrific if it was 90% about Snap and 10% (in an almost "by the way" sensibility) that CNET is also in IE4.0. Unfortunately, I think MS is going to want the exact opposite balance, since for them the inclusion of Snap in the lineup will raise some very thorny and difficult-to-answer questions from the search engines and other people who consider themselves aggregators.

Another part of the deal, which I don't think we want to mention publicly *at all,* is that Snap will have "full aggegrator" rights to reconfigure the IE4.0 browser. This is a significant concession from Microsoft, that I believe has only been granted to AOL to date. These rights give Snap the ability to completely reprogram the channel bar on versions of IE4.0 that Snap distributes. This means that Snap can delete all of the other channels, including the MS supply channels and replace them with channels from Snap. As you might imagine, this is a huge deal for Snap as it will completely eliminate any confusion around the way that Snap's aggregational approach fits into MSoft's whole channel concept. Also, it looks as if we may be able to sub-license this right for versions we distribute to PC OEMs and third party marketers. It is this point that we are currently negotiating today.

This is obviously very important and powerful news that is entirely beneficial to Snap's interests. The reason I am leery of announcing it next week is that I'm certain it will ignite a firestorm of protest from the rest of the industry, and may seriously weaken Microsoft's negotiating position with the ISP's, who will insist on having the same set of rights. Given that, I think it's best for us to lie low and let the initial wave of publicity about the validation and distribution aspects of the Snap news buoy our prospects. Later on, perhaps closer to the actual Snap launch, we can issue another release that talks about our ability to reprogram this (though even that may not be something we want to put in a press release, but instead just privately tell our potential distribution partners).

Finally, a word about executive quotes. As you'll read in the contract, we've actually negotiated quotes from Brad Chase and Paul Moritz (sp?). The seniority level of these quotes is important and was a deal point. For the press release next week, we will get a quote from Brad Chase and nobody higher than that. For the Snap launch press release in September, we have been promised a quote from the Paul Moritz level.

That being said, we need to be thoughtful about any executive quote we make available to Microsoft. The good news is that they have told me that for their press release, they do not expect a quote from CNET at all. If they do, I'm not sure that the right thing to do is to use Halsey at this point, and I think we may want to use somebody else to make sure that we keep the relative balance of seniority intact. I think for our press release we can use anybody we want, but if we want a quote from MS for our Snap press release, then we may want to make sure that the CNET person is of similar level to Brad. This is not some convoluted way of suggesting that it should be me, I'm simply pointing out that the seniority level of these quotes was a negotiated point, and we should preserve the value that we attached to executive comments on both sides.

I think that's it for preparation for this press release. I will track you down this afternoon to go over anything that's not clear, and to explain the contract in more detail. Thanks.

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