

CONFIDENTIAL MEMORANDUM

To: Distribution
From: Ray Solnik
Re: Project Mercury Quantitative Analysis
Date: August 26, 1996

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Subject to Protective Order in
Nos. 1:98CV012332 and 1:98CV012333
U.S.D.C., District of Columbia

No. of Pages: 24

As we discussed, I am circulating this preliminary analysis of the Mercury economics with an emphasis on the subscriber acquisition channels. Any comments are welcome. Back up is attached.

Summary

1. The expected number of subscribers from either the Microsoft or Netscape channels is approximately 20,000 to 40,000 subscribers per RBOC through the end of calendar year '97.
2. There is a high degree of variance depending on model assumptions (3,000 subscribers for a downside case to hundreds of thousands upside).
3. The Microsoft deal significantly outpaces the Netscape deal strictly on distribution of the Windows OS vs. the Netscape OEM deal (25,000 vs. 7,500).
4. The overall Netscape deal including retail distribution of PE and online channels outpaces the Microsoft deal by 13,000 subscribers (40,037 vs. 26,745). This includes an assumption of 26,000 subscribers from Netscape's retail channel.
5. The Netscape deal has two additional acquisition mechanisms (Website Advertising and "Click and Switch") to spread the risk of any one source of subscribers not working.
6. Cost savings associated with a free browser amount to almost \$1 million between Q4 '96 through Q4 '97 (assumes 220,000 subscribers, \$12 opportunity cost per browser).

Issues

Some key issues when thinking about this analysis are as follows:

1. Will Microsoft somehow implement a set up program in Win '95 that present some kind of splash screen or equivalent that entirely upstages the Netscape desktop OEM icon / referral server?
2. What will be the impact of how Microsoft implements the referral server: 3 phonebooks (MSN, Internet OLS), preference, number of ISPs included, retail IE bundle with one preferred ISP (MCI?) ?
3. Can Netscape pull off what they are committing to -- especially retail?
4. What are reasonable activation rates for each channel?

(One more page of summary)



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Table I - Analysis Summary For A Typical RBOC *

Sensitivity Case:	Downside	Base	Upside
(Subscribers Q4 '96 through Q4 '97)			
Microsoft Phonebook - OEM and Retail W'95	3,493	25,193	217,669
Microsoft Retail	NA	NA	NA
Microsoft IE Downloads	37	1,552	17,700
Microsoft Total	3,530	26,745	235,369
Netscape OEM Phonebook	722	7,530	223,645
Netscape Retail	1,349	26,011	118,374
Netscape Web PE Downloads		3,386	55,312
Netscape Advertising	1,244	3,110	6,220
Netscape "Click and Switch"	-	-	-
Netscape Total	3,372	40,037	403,551
Microsoft - Netscape	158	(13,292)	(168,182)
** Either assume these are upside or they are included in the PE Downloads Deal			
Key Sensivities:	Impact on Base Case:		
(Subscribers Q4 '96 through Q4 '97)	Microsoft	Netscape	
Reduce Number of ISPs by one in the referral server	5,349	8,386	
Decrease Activation Rate For Netscape Retail	NA	(10,404)	
From 25% to 15%			

* Base case assumes a 20% market share.

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Attachments

- A. Summary
- B. Sensitivity Analysis Table 1 - Assumptions Inputs
- C. Sensitivity Analysis Table 2 - By Input Variable
- D. Acquisition Channel Analysis - Forecasts and underlying assumptions
 Base Case, Downside Case, Upside Case
- E. Consumer Behavior Distributions
- F. OEM PC Shipments - Netscape Software Deals List
- G. Browser Cost Savings Analysis - Preliminary

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Distribution

Ameritech	Greg Buck	312-526-8245
Bell Atlantic	Bob Beran	703-708-4409
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	John Robinson	404-685-8005
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	Charles Meyers	770-392-4360
Southwestern Bell Internet Services	Bob Casali	214-238-3625
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Pacific Bell Internet Services	Rick Hronicek	415-442-4997
	Mark Fisher	415-442-4997
cc		
Blanc Williams Johnston and Kronstadt, LLP	Sam Mandel	310-552-1191

Handwritten notes:
Standard volume 500K units 1.5m -> 34853 (5654)
- OEM - Netel ... -> 3,765
- 1/2 ... 40, - 1,800 7530
- 1/2 ... 20, (0.2) 65934 25937

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Project Mercury Quantitative Analysis Summary

Sensitivity Case:	<u>Downside</u>	<u>Base</u>	<u>Upside</u>
Microsoft Phonebook - OEM and Retail W'95	3,493	25,193	217,669
Microsoft IE Retail	NA	NA	NA
Microsoft IE Downloads	37	1,552	17,700
Microsoft Total	3,530	26,745	235,369
Netscape OEM Phonebook	722	7,530	223,645
Netscape Retail	1,349	26,011	118,374
Netscape Web PE Downloads	57	3,386	55,312
Netscape Web Advertising	1,244	3,110	6,220
Netscape "Click and Switch"	-	-	-
Netscape Total	3,372	40,037	403,551
Microsoft - Netscape	158	(13,292)	(168,182)

* Either assume these are upside or they are included in the PE Downloads Deal

Project Mercury Quantitative Analysis
Sensitivity Analysis Table 1

Sensitivity Case:	Downside	Base	Upside
Microsoft PHONEBOOK			
Microsoft W95 1997 Shipments (000)	50,000	60,000	80,000
Microsoft W3 1x 1997 Shipments (000)	1,045	2,090	4,181
Win 3 1x 96-97 Growth Rate	95%	90%	80%
Percent Domestic	30%	40%	50%
Domestic Corporate	17%	22%	20%
Domestic Consumer	13%	18%	30%
Percent of Consumers Who Click Internet Icon	21.7%	27.1%	48.8%
Multiplier	20%	0%	80%
Percent of Consumers Who Register	26.0%	32.5%	39.0%
Multiplier	20%	0%	20%
Percent of Consumers Who Remain Qualified Subscribers	49.8%	62.1%	74.6%
Multiplier	20%	0%	20%
Percent to Select HMOOC Site Hoisting	1.2%	1.2%	3.0%
Percent of National Users to Select RBOC	15%	20%	25%
RBOC Share of National Market	10	6	5
Number of Providers in Phonebook	10.0%	16.7%	20.0%
RBOC share of phonebook space			
Nat % of Domestic Consumers Who Become Qualified Subs	0.042%	0.183%	0.710%
IE DOWNLOADS			
Downloads - Daily	49,000	70,000	77,000
Downloads - Annual	17,885,000	25,550,000	28,105,000
% Downloads that are Consumers	40.0%	50.0%	60.0%
Domestic Download percent	43.8%	62.5%	75.0%
% Downloaded NOT onto a LAN	5.0%	15.0%	30.0%
Eligible IE Annual Downloads	156,494	1,197,656	3,794,175
Activation Rate	2.5%	5.0%	10.0%
Percent of Activations That Remain Qualified Subscribers	49.8%	62.2%	74.6%
	20.0%	0.0%	20.0%
Percent of National Users to Select HMOOC	1.5%	3.3%	5.0%

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Project Mercury Quantitative Analysis
Sensitivity Analysis Table 1

Sensitivity Case:	Downside	Base	Upside
NetScope			
NetScope OEM DEAL			
OEM Shipments	8,000,000	10,000,000	16,000,000
Percent Domestic	30%	40%	80%
Domestic Corporate	17%	22%	20%
Domestic Consumer	13%	18%	60%
Percent of Consumers Who Click Internet Icon	21.7%	27.1%	48.8%
Microsoft Multiplier for Icon Click	.20%	0%	80%
Percent of Consumers Who Register	26.0%	32.5%	39.0%
Multiplier	20%	0%	20%
Percent of Consumers Who Remain Qualified Subscribers	49.8%	62.2%	74.6%
Multiplier	.20%	0%	20%
Percent to Select RBQC Sub Routine			
Percent Of National Users to Select RBQC	2.4%	7.3%	15.6%
RBQC Share of National Market	15%	20%	25%
Number of Providers in Phonebook	7	5.5	4
RBQC share of phonebook space	16%	36%	63%
Multiplier for preference handling	10%	100%	150%
Net % of Domestic Consumers Who Become Qualified Subs	0.066%	0.398%	2.219%
RETAIL BUNDLE DEAL			
Shipment Volume 1996	150,000	300,000	400,000
Shipment Volume 1997	1,000,000	2,000,000	2,500,000
Activation Rate	10.0%	25.0%	35.0%
Percent of Activations That Remain Qualified Subscribers	49.8%	62.2%	74.6%
Multiplier	.20%	0%	20%
Percent Of National Users to Select RBQC	2.4%	7.3%	15.6%
PE DOWNLOADS DEAL			
Current LAN version downloads - Daily	49,000	70,000	77,000
Current LAN Version downloads - Annual	17,885,000	25,550,000	28,105,000
% Downloads that are Consumers	40.0%	50.0%	60.0%
Domestic Download Percent	43.8%	62.5%	75.0%
Personal Edition Download Estimate (% of LAN Version)	5.0%	15.0%	30.0%
PE Annual Downloads	156,494	1,197,656	3,794,175
Activation Rate	2.5%	5.0%	10.0%
Percent of Activations That Remain Qualified Subscribers	49.8%	62.2%	74.6%

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**Project Mercury Quantitative Analysis
Sensitivity Analysis Table 1**

Sensitivity Case:	Downside	Base	Upside
Percent of National Users in Target (RROC)	2.4%	7.3%	15.6%
ADVERTISING			
Centralized Advertising Commitment (\$000)	2,500	2,500	2,500
Target Acquisition Cost Per Subscriber	\$ 150.00	\$ 100.00	\$ 75.00
Total Subscribers	16,667	25,000	33,333
RBOC Share of National Market	15%	20%	25%
Percent of Consumers Who are Non-Qualified Subscribers	50%	62%	75%
RROC - Qualified Subscribers	1,244	3,110	6,220

CLICK AND SWITCH DEAI

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Project Mercury Quantitative Analysis
Sensitivity Analysis Table 1

Sensitivity Case	Comments
<p>Microsoft MICROBOOK</p> <p>Microsoft WQ5 1997 Shipments (000)</p> <p>Microsoft WQ1 1x 1997 Shipments (000)</p> <p>WQ1 1x WQ5 0.7 Growth Rate</p>	<p>Base case from DQuest. Upside is 3x downside variance (Derived from model)</p>
<p>Percent Domestic Domestic Corporate Worldwide Corporation</p>	<p>Industry average for PCs is 40%. Microsoft claims their domestic percentage is 50%. Microsoft claims 80% of their customers are consumers (as does NetScape)</p>
<p>Percent of Consumers Who Clicked from Multitasker</p>	<p>Derived from Consumer Behavior Sheet</p>
<p>Percent of Consumers Who Upgrade Multitasker</p>	
<p>Percent of Consumers Who Promote Qualified Subscribers</p>	
<p>Percent of Select PROOC Sub Routine</p> <p>Percent Of National Users to Select PROOC</p> <p>PROOC Share of National Market</p> <p>Number of Providers in Phonebook</p> <p>PROOC share of phonebook square</p>	<p>Plugs (e.g. for P99 22.5% of NetScape hits are from the Pacific Region)</p> <p>Plugs</p> <p>Calculation based on proportion of number of ISPs in the phonebook</p>
<p>Percent of Domestic Consumers Who Purchase Qualified Subscribers</p>	
<p>IE DOWNLOADS</p> <p>Downloads Daily</p> <p>Downloads Annual</p>	<p>Microsoft claims 1 million downloads in about the first ten days since launch, reduce by 30% for base case due to launch hiccup, 10% upside, 30% downside (calculation)</p>
<p>Downloads that are Consumer Domestic Download percent</p> <p>Downloads NOT onto a LAN</p> <p>1 triple if Annual Downloads</p>	<p>No data currently available</p> <p>NetScape claims 62.5% of hits are domestic, used same assumption for Microsoft, 20% on the upside, 30% on the downside (this assumption is used to normalize the analysis compared to NetScape, probably a bit biased towards NetScape since IE only runs on WQ5 right now)</p>
<p>Activation Rate</p> <p>Percent of Activations That Have a Qualified Subscriber</p>	<p>NetScape suggests 25% for retail deal, 100% upside, 50% downside</p> <p>Same as Phonebook and same as NetScape</p>
<p>Percent Of National Users Who Select PROOC</p>	<p>Same as Phonebook</p>

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Project Mercury Quantitative Analysis
Sensitivity Analysis Table 1

Sensitivity Case	Comments
NetScape OEM DEAL OEM Agreement	Upside is 3x downside variance
Percent Domestic Domestic Corporate Domestic Consumer	NetScape claims 90% domestic NetScape claims 80% of bundles are consumer (BMW/White B/20/96) NetScape claims 80% of bundles are consumer (BMW/White B/20/96)
Percent of Consumers Who Check Internet from Microsoft Multiplier for Non Check	Same as Microsoft Pilot
Percent of Consumers Who Download Multiplier	Same as Microsoft
Percent of Consumers Who Remain Qualified Subscribers Multiplier	Same as Microsoft. NetScape claims 90% stay on for 60 days
Percent of Select ERRO, Sub-Headline Percent of National Users to Select ERRO ERRO Share of National Market Number of Prospects in Handbook ERRO share of phonebook space Multiplier for preference branding	Calculation Same as Microsoft This takes into account preference branding Preference branding multiplier
Percent of Degree In Consumers Who Become Qualified Subscribers	[blank]
RETAIL GUNDE DEAL Significant Volume 1996 Significant Volume 1997 Activation Rate Percent of Activations That Have or Qualified Subscribers	[blank] [blank] NetScape suggests a 25% rate 60 days paying customers, same as OEM deal
Percent of National Users to Enter ERRO	Same as OEM deal
PE DOWNLOADS DEAL Current LAN Version downloads - Daily Current LAN Version downloads - Annual	10% on the upside, 30% on the downside - same as Microsoft
% Downloads that are Consumers Domestic Downloads Percent Personal Edition Downloads Estimate (% of LAN Version) FY Annual Downloads	No data currently available, same as Microsoft NetScape claims 62.5% of bills are domestic, used same assumption for Microsoft. 20% upside, 30% downside Assume all consumer. NetScape suggests 30%
Activation Rate Percent of Activations That Remain Qualified Subscribers	NetScape suggests 25% for retail deal, 100% upside, 50% downside same as Microsoft Same as OEM deal. NetScape suggests 90% remain for 60 days

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Project Mercury Quantitative Analysis Sensitivity Analysis Table 1

Sensitivity Case	Comments
ADVERTISING Percent Of National Users In Select RHOOC Confidential Advertising Commitment (\$000) Target Acquisition Cost Per Subscription Total Subscribers RHOOC Share of National Market Percent of Consumers Who Remain Qualified Subscribers Filter - Qualified Subscribers (LUCK AND SWITCH DEAL)	Same as OEM deal This value does not take into account any discounts off the rate card This value excludes bonuses; purposefull conservative estimates Same assumptions as OEM deal Same assumptions as OEM deal Either assume these are upside or they are included in the PE Downloads Deal

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Project Mercury Quantitative Analysis
Sensitivity Analysis Table 2

Impact of a 10% variance of the input variable on total subscribers:

Other Assumptions
 Base Case

Sensitivity Case	Base	Total Subscribers	Variance	Comments
Mercury W95, 1997 Shipments (000)		29,265	9.4%	10.0% impact on just W95 Deal subscribers
Mercury W.1, 1997 Shipments (000)		NA	NA	
W.1, 1997 Growth Rate		NA	NA	
Percent Domestic		NA	NA	
Domestic Corporate		NA	NA	
Domestic Consumer		29,265	9.4%	
Percent of Consumers Who Check Internet		29,265	9.4%	
Percent of Consumers Who Register		29,265	9.4%	
Percent of Consumers Who Forman Deal		29,265	9.4%	10% impact on just W95 Deal subscribers
Percent to Select HBOC Site Routine		29,265	9.4%	
Percent of National Users to Select HBOC		29,265	9.4%	
HBOC Square of National Market		29,265	9.4%	
Number of Providers in Philadelphia		29,265	9.4%	
HBOC share of Philadelphia square		29,265	11.1%	11.1% impact on just W95 Deal subscribers
Net % of Domestic Consumers Who Register		NA	NA	
Net % of OEM DEAL		40,037	NA	
OEM Shipments 1997		40,790	1.9%	10% impact on just OEM subscribers
Percent Domestic		NA	NA	
Domestic Corporate		NA	NA	
Domestic Consumer		NA	NA	
Percent of Consumers Who Check Internet				
Percent of Consumers Who Register				
Percent of Consumers Who Forman Deal				

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**Project Mercury Quantitative Analysis
Sensitivity Analysis Table 2**

Impact of a 10% variance of the input variable on total subscribers:

Other Assumptions
Base Case

Sensitivity Case	Total Subscribers	Variance	Comments
------------------	-------------------	----------	----------

Percent to Select FTRQC Sub-Routine			
Percent of National Users to Select FTRQC	43,730	9.2%	10% impact on just OEM subscribers
FTRQC Share of National Market	44,140	10.2%	11.1% Note: This value flows through all channels
Number of Providers in Phonebook			
FTRQC Share of Phonebook Query			

Note: Total Domestic Consumers When Base Case Qualified Subs

FE TAIL BUNDLE DEAL			
Shipment Volume 1996	42,299	5.6%	8.7% impact on just Retail subscribers (not a full 10% due to '96 impact)
Shipment Volume 1997	42,638	6.1%	10.0% impact on just Retail subscribers
Activation Rate			
Percent of Activation That Remain Qualified Subscribers			

FE DOWNLOADS DEAL			
Current LAN Version Downloads - Daily			
Current LAN Version Downloads - Annual			
% Downloads that are Consumers			
Domestic Download Percent			
Personal Edition Download Estimate (% of LAN Version)			
FE Annual Downloads			

Activation Rate	40,376	0.8%	10% impact on just Download subscribers
Percent of Activations That Remain Qualified Subscribers			

ADVERTISING			
Costs that Advertising Commitment (\$000)	40,348	0.8%	10% impact on just Advertising subscribers
Target Acquisition Cost Per Subscriber	40,381	0.9%	11% impact on just Advertising subscribers
Total Subscribers			
FTRQC Share of National Market			
Percent of Consumers Who Have on Doubled Subscribers			
FTRQC Qualified Subscribers			

CLICK AND SWITCH DEAL

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Project Mercury Quantitative Analysis

Case: Base

Case: Base

Microsoft vs. Netscape
Microsoft Total Quarterly Subscribers
Netscape Total Quarterly Subscribers
Version

Table with columns Q1 96, Q2 96, Q3 96, Q4 96, Total, 1997 Total, Overall Total, Comments

Microsoft Forecast

Microsoft

Forecast Q1-Q4 1996 W-97
Forecast Q1-Q4 1997 W-97
Forecast Q1-Q4 1998 W-97

Table with columns Q1 96, Q2 96, Q3 96, Q4 96, Total, 1997 Total, Overall Total, Comments

IE Download Forecast

IE Downloads Forecast

Forecast Q1-Q4 1996 W-97
Forecast Q1-Q4 1997 W-97
Forecast Q1-Q4 1998 W-97

Table with columns Q1 96, Q2 96, Q3 96, Q4 96, Total, 1997 Total, Overall Total, Comments

Net Market of Qualified Subscribers - IE Downloads

Microsoft Acquisition Forecast Total

Table with columns Q1 96, Q2 96, Q3 96, Q4 96, Total, 1997 Total, Overall Total, Comments

Microsoft Supporting Assumptions

Threatbook Deal

Microsoft will acquire Threatbook (part of the deal with Microsoft) by the end of 1996.

Forecast 1998

Forecast 1998: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1997

Forecast 1997: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1996

Forecast 1996: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1995

Forecast 1995: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1994

Forecast 1994: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1993

Forecast 1993: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1992

Forecast 1992: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1991

Forecast 1991: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1990

Forecast 1990: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1989

Forecast 1989: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1988

Forecast 1988: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1987

Forecast 1987: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1986

Forecast 1986: Microsoft will acquire Threatbook by the end of 1996.

Forecast 1985

Forecast 1985: Microsoft will acquire Threatbook by the end of 1996.

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Comments: Microsoft's 1996 forecast is highly conservative, from Q1 to Q4. Microsoft's 1997 forecast is highly conservative, from Q1 to Q4. Microsoft's 1998 forecast is highly conservative, from Q1 to Q4.

Project Mercury Quantitative Analysis
Acquisition Channel Analysis

Case: Base

Case: Base

Mercury Forecast

Net Sales
 Of all Shipments (000)

% Executive Customers
 Net % of Total Customers Who Purchase Qualified Ship
 Products as a Percentage of Customers

Retail Shipments (000)

Active Store Portfolio
 Total Acquisitions
 Total Potential Shipments

Percent of Potential Store Portfolio that is HIRP

Web Site - Newgate Personal Edition Downloads (000)

Active Store Portfolio
 Total Acquisitions
 Total Potential Shipments

Percent of Potential Store Portfolio that is HIRP

Web Site Advertising

Acquisition of New Customers (000)
 Acquisition of Existing Customers (000)
 Total Acquisitions

Percent of Customers Who Purchase Qualified Ship
 Products as a Percentage of Customers

Web Site (Link and Search)

Net Sales Acquisition Grand Total

	Q1 '06	Q2 '06	Q3 '06	Q4 '06	Q1 '07	Q2 '07	Q3 '07	Q4 '07	Total	Total	Total	Comments
Net Sales	500	1500	2000	2500	4000	5000	6000	7000	18000	18000	18000	Estimated data provided by IBM White. Q4 '06 Waiting for data
% Executive Customers	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	Does not take into account 90 day lag time to become qualified with
Net % of Total Customers Who Purchase Qualified Ship Products as a Percentage of Customers	0.398%	0.398%	0.398%	0.398%	0.398%	0.398%	0.398%	0.398%	0.398%	0.398%	0.398%	Does not take into account 90 day lag time to become qualified with
Retail Shipments (000)	300	275	440	660	825	940	1100	1300	2700	2700	2700	Does not take into account 90 day lag time to become qualified with
Active Store Portfolio	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	Does not take into account 90 day lag time to become qualified with
Total Acquisitions	75,000	68,750	110,000	165,000	206,250	238,750	280,000	330,000	675,000	675,000	675,000	Does not take into account 90 day lag time to become qualified with
Total Potential Shipments	46,650	42,763	68,420	102,630	128,288	147,100	174,100	201,000	398,750	398,750	398,750	Does not take into account 90 day lag time to become qualified with
Percent of Potential Store Portfolio that is HIRP	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	Does not take into account 90 day lag time to become qualified with
Web Site - Newgate Personal Edition Downloads (000)	299	299	299	299	299	299	299	299	1196	1196	1196	Does not take into account 90 day lag time to become qualified with
Active Store Portfolio	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	Does not take into account 90 day lag time to become qualified with
Total Acquisitions	15	15	15	15	15	15	15	15	60	60	60	Does not take into account 90 day lag time to become qualified with
Total Potential Shipments	9	9	9	9	9	9	9	9	36	36	36	Does not take into account 90 day lag time to become qualified with
Percent of Potential Store Portfolio that is HIRP	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	Does not take into account 90 day lag time to become qualified with
Web Site Advertising	100,000	625	625	625	625	625	625	625	2,500	2,500	2,500	Does not take into account 90 day lag time to become qualified with
Acquisition of New Customers (000)	0	6.25	6.25	6.25	6.25	6.25	6.25	6.25	25	25	25	Does not take into account 90 day lag time to become qualified with
Acquisition of Existing Customers (000)	0	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	80	80	80	Does not take into account 90 day lag time to become qualified with
Total Acquisitions	0	26.25	26.25	26.25	26.25	26.25	26.25	26.25	105	105	105	Does not take into account 90 day lag time to become qualified with
Percent of Customers Who Purchase Qualified Ship Products as a Percentage of Customers	62.2%	778	778	778	778	778	778	778	3110	3110	3110	Does not take into account 90 day lag time to become qualified with
Web Site (Link and Search)	NA	NA	NA	4,429	5,640	7,865	10,712	13,653	4,429	21,870	42,299	Does not take into account 90 day lag time to become qualified with
Net Sales Acquisition Grand Total	NA	NA	NA	4,429	5,640	7,865	10,712	13,653	4,429	21,870	42,299	Does not take into account 90 day lag time to become qualified with

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Project Mercury Quantitative Analysis

Acquisition Channel Analysis

Case: Base

Case: Base

Business Segment Assumptions

OEI Deal
 2018 Commitments: 100%

Segment by Analysis

Multiplier
 Model Value
 10,000

vs. Historical

4 Segments
 Multiplier
 NA

Comments

Based on H&O institutional research, 40% of commitments. Same as historical assumptions.
 North America
 Multiplier: 2018
 90 days trading restrictions
 See cell for more details

Percentage of Commitments: 100%

Percentage of Commitments: 100%

Percentage of Commitments: 100%

Percentage of Commitments: 100%

Percentage of Commitments: 100%

Percentage of Commitments: 100%

Web Site Advertising

Estimated Total Ad Spend: \$2,000,000
 Estimated Total Ad Spend: \$2,000,000
 Estimated Total Ad Spend: \$2,000,000
 Estimated Total Ad Spend: \$2,000,000

Additional variables to consider

Additional variables to consider: [List of variables]

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SBCMS000165

Project Mercury Quantitative Analysis
Acquisition Channel Analysis

Case: Downside

Case: Downside

MICROSOFT VS. INTEL
 Microsoft Total Quarterly Subscribers
 Intel Total Quarterly Subscribers

Microsoft Forecast

Microsoft - Q1 96 and Fiscal Year
 Workforce of 14,000 employees
 Microsoft 1995 Revenue: \$1.4B

Intel - Q1 96 and Fiscal Year
 Workforce of 14,000 employees
 Intel 1995 Revenue: \$1.4B

	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	1996 Total	1997 Total	Overall Total	Comments
Microsoft	NA	NA	NA	766	481	611	721	901	766	2,764	3,530	92,952
Intel	NA	NA	NA	544	180	695	648	1,071	222	2,159	2,381	21,924
Total												
Microsoft												92,952
Intel												21,924
Total												114,876

Microsoft Supporting Assumptions
 Microsoft Revenue
 Microsoft Revenue Growth

Intel Supporting Assumptions
 Intel Revenue
 Intel Revenue Growth

Additional variables to consider
 Microsoft Revenue
 Intel Revenue

Case: Downside

Case: Downside

Case: Downside

Case: Downside

Case: Downside

Case: Downside

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Project Mercury Quantitative Analysis
Acquisition Channel Analysis

Case: Downside

Case: Downside

Media Type	Q1 '96	Q2 '96	Q3 '96	Q4 '96	Q1 '97	Q2 '97	Q3 '97	Q4 '97	Total	Total	Total	Comments
MAILBOX FORECAST												
Of All Shipments (000)												
% of Total Consumer Mail	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	Estimated data - 100MM provided by Bill White. Q4 '96 Missing for data
% of Total Consumer Mail	0.065%	0.065%	0.065%	0.065%	0.065%	0.065%	0.065%	0.065%	0.065%	0.065%	0.065%	Does not take into account 90 day lag time in advertising qualified site.
RETAIL SHIPMENTS (000)												
At the Store	150	125	200	300	300	100	300	175	150	1,000	1,150	Does not take into account 90 day lag time in advertising qualified site.
At the Store	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	Use same assumption as launch lead
Total Retail Shipments	15,000	12,500	20,000	30,000	30,000	10,000	30,000	17,500	15,000	100,000	115,000	Does not take into account 90 day lag time in advertising qualified site.
At the Store	7,464	6,220	9,072	14,174	14,174	4,611	14,174	8,461	7,464	49,700	57,224	Use same assumption as launch lead
At the Store	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	Use same assumption as launch lead
At the Store	17%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	Use same assumption as launch lead
At the Store	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	Use same assumption as launch lead
Web Site Navigator Personal Edition Downloads (000)												
At the Store	38	39	39	39	39	39	39	39	39	156	106	
At the Store	1%	1%	1%	1%	1%	1%	1%	1%	1%	4	5	
At the Store	1	1	1	1	1	1	1	1	1	4	5	
At the Store	0	0	0	0	0	0	0	0	0	2	2	
At the Store	2%	2%	2%	2%	2%	2%	2%	2%	2%	8	7	
At the Store	11%	11%	11%	11%	11%	11%	11%	11%	11%	44	37	
Web Site Advertising												
Acquisition Cost	\$ 160,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 160,000	\$ 2,500	\$ 2,500	Per contract for the BRDC Campaign overall
Cost per Acquisition	\$ 4,156.667	\$ 4,156.667	\$ 4,156.667	\$ 4,156.667	\$ 4,156.667	\$ 4,156.667	\$ 4,156.667	\$ 4,156.667	\$ 4,156.667	\$ 2,500	\$ 2,500	
Return on Investment	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	
Return on Investment	49.8%	49.8%	49.8%	49.8%	49.8%	49.8%	49.8%	49.8%	49.8%	49.8%	49.8%	
Return on Investment	311	311	311	311	311	311	311	311	311	1,244	1,244	
Website Acquisition Channel Total	NA	NA	NA	NA	222	512	695	846	1,037	222	2,150	2,372

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Project Mercury Quantitative Analysis
Acquisition Channel Analysis

Case: Downside

Case: Downside

Mercury Specific Assumptions	Sensitivity Analysis	Model Value	Assumptions	Comments
<p>OFM Deal OFM Deal OFM Deal OFM Deal</p>	<p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p>	<p>100</p> <p>100</p> <p>100</p> <p>100</p>	<p>NA</p> <p>NA</p> <p>NA</p> <p>NA</p>	<p>Mercury provided projections of 10 million</p> <p>Based on H&Q foundational Research 40% OFM Signments Same as Microsoft assumptions</p> <p>North America</p>
<p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p>	<p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p>	<p>21.1%</p> <p>2.4%</p> <p>28.0%</p> <p>48.8%</p>	<p>20%</p> <p>NA</p> <p>NA</p> <p>NA</p>	<p>Assumes Microsoft operations given that performance vs. Mercury in 09 - find up market when going in your computer</p> <p>Same as Microsoft assumptions</p> <p>09 days paying customers</p>
<p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p>	<p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p>	<p>2.4%</p> <p>1%</p> <p>7.0%</p> <p>11%</p>	<p>NA</p> <p>NA</p> <p>NA</p> <p>NA</p>	<p>Microsoft ESU, Essential, CoreSuite, RPOC</p> <p>100% Payment a and Initial Paying customers</p>
<p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p>	<p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p>	<p>150,000</p> <p>1,000,000</p> <p>100</p> <p>40 B</p>	<p>NA</p> <p>NA</p> <p>NA</p> <p>NA</p>	<p>Mercury predicts 300,000</p> <p>Mercury predicts 7,000,000</p> <p>Mercury suggests a 23% rate</p> <p>09 days paying customers same as OFM deal</p>
<p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p>	<p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p>	<p>40,000</p> <p>17 million</p> <p>40 B</p> <p>43 B</p>	<p>NA</p> <p>NA</p> <p>NA</p> <p>NA</p>	<p>Core Mercury R&D spend</p> <p>Mercury acquisition by 365 days</p>
<p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p>	<p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p>	<p>40 B</p> <p>5.0B</p> <p>16,434</p> <p>2.5%</p>	<p>NA</p> <p>NA</p> <p>NA</p> <p>NA</p>	<p>No data currently available</p> <p>Mercury claims 75% of data is domestic</p> <p>Accounts 30% customer Meru Key suggests 0%</p> <p>Mercury suggests 25% for OFM deal</p> <p>09 days paying customers same as OFM deal</p>
<p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p> <p>Percentage of revenue</p>	<p>0%</p> <p>0%</p> <p>0%</p> <p>0%</p>	<p>2,440</p> <p>10,000</p> <p>16,762</p> <p>15,000</p> <p>49 B</p> <p>1.44</p>	<p>NA</p> <p>NA</p> <p>NA</p> <p>NA</p> <p>NA</p> <p>NA</p>	<p>Mercury suggests 25% for OFM deal</p> <p>09 days paying customers same as OFM deal</p>

Web Site Advertising

Additional variables to consider:
 - Microsoft's program when a user first visits the computer that requires stand software to download services and guides them to the Microsoft website

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Project Mercury Quantitative Analysis
Acquisition Channel Analysis

Microsoft vs. Microsoft
Microsoft Total Qualified Subscribers
Microsoft Total Qualified Subscribers
Microsoft Total Qualified Subscribers

	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	1996 Total	1997 Total	Total	Comments
Microsoft Total Qualified Subscribers	NA	NA	NA	50,813	80,314	35,491	18,754	34,629	50,813	146,584	197,397	96 a from DQ and 8/16/96. Monthly seasonally from 96 to 97.
Microsoft Total Qualified Subscribers	NA	NA	NA	28,048	47,222	25,428	847	1,411	30,910	208,211	239,121	96 a from DQ and 8/16/96.
Microsoft Total Qualified Subscribers	NA	NA	NA	12,774	127,000	140,160	152,970	156,780	1160,950	1160,950	1160,950	96 a from DQ and 8/16/96. Monthly seasonally from 96 to 97. Increase from 95 (139,664) to 96 (290,970) per DQ and 8 a was 47%.
Total												

Case: Upside

Case: Upside

Microsoft Forecast

Microsoft QEA and Total 9/95

Microsoft QEA and Total 9/95
Microsoft QEA and Total 9/95
Microsoft QEA and Total 9/95

	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	1996 Total	1997 Total	Total	Comments
Microsoft QEA and Total 9/95	7,400	9,800	12,020	22,100	11,631	14,006	18,754	34,629	51,275	80,000	131,275	96 a from DQ and 8/16/96. Monthly seasonally from 96 to 97.
Microsoft QEA and Total 9/95	7,200	5,600	4,231	3,206	1,520	1,113	847	1,411	20,000	4,181	25,000	96 a from DQ and 8/16/96.
Microsoft QEA and Total 9/95	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	96 a from DQ and 8/16/96. Monthly seasonally from 96 to 97. Increase from 95 (139,664) to 96 (290,970) per DQ and 8 a was 47%.
Total												

IL Development

IL Development
IL Development
IL Development

	Q1 96	Q2 96	Q3 96	Q4 96	Q1 97	Q2 97	Q3 97	Q4 97	1996 Total	1997 Total	Total	Comments
IL Development	7,026	7,026	7,026	7,026	7,026	7,026	7,026	7,026	28,104	28,104	56,208	96 a from DQ and 8/16/96. Monthly seasonally from 96 to 97.
IL Development	7,026	7,026	7,026	7,026	7,026	7,026	7,026	7,026	28,104	28,104	56,208	96 a from DQ and 8/16/96.
IL Development	7,026	7,026	7,026	7,026	7,026	7,026	7,026	7,026	28,104	28,104	56,208	96 a from DQ and 8/16/96. Monthly seasonally from 96 to 97. Increase from 95 (139,664) to 96 (290,970) per DQ and 8 a was 47%.
Total												

Microsoft Supporting Assumptions

Assumption	Value	Comment
Microsoft Supporting Assumptions	3,540	Based on preparation of number of ISPs in the handbook
Microsoft Supporting Assumptions	28,114	Based on preparation of number of ISPs in the handbook
Microsoft Supporting Assumptions	35,459	Based on preparation of number of ISPs in the handbook
Microsoft Supporting Assumptions	43,485	Based on preparation of number of ISPs in the handbook
Microsoft Supporting Assumptions	77,297	Based on preparation of number of ISPs in the handbook
Microsoft Supporting Assumptions	50,813	Based on preparation of number of ISPs in the handbook
Microsoft Supporting Assumptions	3,540	Based on preparation of number of ISPs in the handbook
Microsoft Supporting Assumptions	14,160	Based on preparation of number of ISPs in the handbook
Microsoft Supporting Assumptions	17,700	Based on preparation of number of ISPs in the handbook
Microsoft Supporting Assumptions	164,596	Based on preparation of number of ISPs in the handbook
Microsoft Supporting Assumptions	235,380	Based on preparation of number of ISPs in the handbook

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Project Mercury Quantitative Analysis
Acquisition Channel Analysis

Case: Upside

Case: Upside

Mercury Subscription Assumptions

CEM Data
 1997

Percent Forward
 Domestic Corporate
 International Corporate

Percent of Consumption: What is a historical base

Percent of Consumption: What is the base

Percent of Consumption: What is the base

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Sensitivity Analysis

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Assumptions

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Project Mercury Quantitative Analysis
Consumer Behavior Distributions

Internet Icon	% To Click	Probability	% To Register	Probability	% Qualified Subs	Probability	Expected Value
	10%	15%	10%	10%	10%	0%	
	20%	40%	20%	15%	20%	0%	
	30%	20%	30%	35%	30%	5%	
	40%	14%	40%	25%	40%	8%	
	50%	7%	50%	10%	50%	12%	
	60%	3%	60%	5%	60%	30%	
	70%	1%	70%	0%	70%	30%	
	80%	0%	80%	0%	80%	10%	
	90%	0%	90%	0%	90%	5%	
	100%	0%	100%	0%	100%	0%	
	100%	100%	100%	100%	100%	100%	
Expected Value		27.1%	Expected Value	32.5%	Expected Value	62.2%	

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Project Mercury Quantitative Analysis OEM PC Shipments - Netscape Software Deals

	1994	1995	1996	1997
Compaq	4,795,218	6,016,016	NA	NA
Apple	3,957,199	4,718,995	NA	NA
NEC	1,941,081	2,883,523	NA	NA
HP	1,273,739	2,210,993	NA	NA
Acel	1,260,749	1,845,006	NA	NA
AST Research	1,315,980	1,379,011	NA	NA
Zenith	NA	NA	NA	NA
Total	14,543,966	19,053,544	NA	NA

Source: Dataquest 4/29/96 PCIS-WW-MS-9603 (3/96)

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Worldwide #'s	47,894,311	60,171,000	NA	NA
Worldwide #'s	47,400,000	59,200,000	71,200,000	85,000,000

Other vendors Netscape has deals with
(Source: Bill White, 8/20/96)

Source: Dataquest 4/29/96 PCIS-WW-MS-9603
Source: H&O Institutional Research, 4/96, PC Shipments

Hardware	Software
Dell	Berkeley Systems (BSDI)
Olivetti	DocuMagix
Teclabna	Elektron
...	Intuit
...	Malls Limited
...	Aberdeen Group
...	Corel - Office, Wordperfect, NOT Draw today

Exhibit C
IAS Attachment to Term Sheet

1. Company Infrastructure/Deliverables.

1.1 Requirements for Internet Access Infrastructure.

Netscape requires, and Company agrees to establish and maintain the infrastructure for Internet access as described below in order that Netscape may provide Subscribers with a choice of competitive Internet access services:

- (a) All POPs must support PPP, with PAP/CHAP compliancy.
- (b) Support for POP3 or SMTP mail servers.
- (c) Support for NNTP for news.
- (d) Verification that each new POP works with Dial Up Kit.
- (e) "Free" test accounts for testing Dial Up Kit.

1.2 Requirements for Account Creation Infrastructure.

Netscape requires, and Company agrees to establish and maintain the infrastructure for Account Creation as described below in order that Netscape may integrate Company with Netscape's IAS:

- (a) Installation of Netscape's ISP Protocol Server (REGD), including SSLD Security Server, on a Unix-based system. Both server front-ends are provided by Netscape to Company.
- (b) Support for real-time account provisioning. Once an error-free account creation process is complete, Subscriber must be able to access Company's service through Company's POPs, with a delay of no more than 10 minutes.
- (c) Support for creating "Free" test accounts for testing account creation process, and Company's Infrastructure.
- (d) Support for capturing and reporting the REG_CHANNEL identifiers and total number of subscribers for each REG_CHANNEL identifier.

2. Review and Approval of Company Pages. Netscape will have the right to review the content and format of each Company Page prior to including any such page in the IAS. If Netscape determines, in its reasonable discretion, at any time before or after delivery of any such page by Company that such page contains any material, or presents any material in a manner, that is not appropriate for use in the IAS, Netscape will inform Company of such determination and, if such page is already incorporated in the IAS, Netscape may immediately remove such page from the IAS. Instead of Netscape incorporating such Company Page in the IAS, Company will deliver to Netscape a revised Company Page that Netscape determines, in its reasonable discretion, is appropriate for use in the IAS. In no event will Netscape be required to incorporate any Company Page or other information in the IAS except as described in this paragraph.

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10/07/96

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3. License Rights. Company grants to Netscape a non-exclusive license during the term of this Agreement to use, reproduce, electronically distribute, publicly display, and publicly perform the materials delivered to Netscape by Company for presentation on the IAS. Nothing in this Agreement gives either party any exclusive marketing or distribution rights. Company further grants to Netscape the right to use Company's trademarks, trade names, servicemarks, and/or logos in any advertising, promotional, and other marketing materials for the IAS in a manner consistent with Company's standard trademark usage, and in each instance, subject to a Company's approval, which shall not be unreasonably withheld. Netscape will submit samples of such materials to Company from time to time upon Company's request.

4. Technical Support. Netscape will provide front-line (first line) technical support to users of PE and Navigator Gold PE during the account creation process in accordance with Netscape's then current technical support policies. Company agrees to provide back-up (second line) technical support to Netscape during the account creation process for users of PE or Navigator Gold PE that are trying to create an account for the Company's Internet access services in accordance with Company's then current technical support policies. Company will have sole responsibility for end user support for Internet access services once the user has established a functioning connection directly to the Company.

5. Records and Reports. Company shall use the "REG_CHANNEL" identifier passed through during account creation to sort and total the number of subscribers for each REG_CHANNEL identifier. Within thirty (30) days after the end of each month, Company will deliver to Netscape in writing or by secure e-mail a report in the format as specified below showing the number of Subscribers acquired by Company for each REG_CHANNEL through the IAS, that have become Qualified Subscribers. Bounties are due and payable net thirty (30) days after a subscriber becomes a Qualified Subscriber. Company will maintain, for at least eighteen (18) months after termination of this Agreement, accurate books and records relating to Subscribers who signed up for Company's services through the IAS. Netscape shall have the right to audit Company's compliance with this section 5 including, without limitations, that the number of Subscribers per REG_CHANNEL reported to Netscape is correct pursuant to the audit provisions of the agreement previously executed by the Company and Netscape.

REPORT FORMAT

REG_CHANNELS	Number of Subscribers
Example: NSCP1001	1,207 subscribers

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10/07/96

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Netscape's back-end technical support services shall include the following:

a. Back-end Support. Netscape will provide back-end support to Company for Program Errors not resolved by Company pursuant to Company's support policies and in accordance with subsection b. below. This support includes efforts to identify defective source code and to provide corrections, workarounds and/or patches to correct Program Errors. Netscape will provide Company with a telephone number and an e-mail address which Company may use to report Program Errors during Netscape's local California business hours (5am - 5pm PST). For priority 1 or 2 failures, Company agrees to notify Netscape via telephone, fax and/or e-mail. Company will identify one (1) member of its customer support staff and an alternate to act as the primary technical liaisons responsible for all communications with Netscape's technical support representatives. Such liaisons will have sufficient technical expertise, training and/or experience, for Company to perform its obligations hereunder. Company will designate, in writing and/or e-mail to Netscape, its liaison(s) as soon as possible after the Effective Date, and may substitute contacts at any time by providing one (1) week's prior written and/or electronic notice thereof to Netscape.

Netscape will use its best efforts to correct significant Program Errors, commensurate with the nature and severity of the Program Errors, and in accordance with the terms of this Attachment E, that Company identifies, classifies and reports to Netscape and that Netscape substantiates. Company will provide sufficient information for Netscape to enable Netscape to duplicate the Program Error before Netscape's response obligations will commence. Netscape will not be required to correct any Program Error caused by (a) Company's incorporation, attachment of a feature, program or device to the Netscape Products, or any part thereof; (b) any nonconformance caused by accident, transportation, neglect or misuse; (c) alteration, modification, or enhancement of the Netscape Products, provided such alteration, modification or enhancement is not made at the direction or authorization of Netscape; (d) the failure to provide a suitable installation environment; (e) use of the Netscape Products for other than the specific purpose for which the Netscape Products are designed; (f) use of the Netscape Products on any systems other than the specified hardware platform for such Netscape Products; or (g) Company's use of defective media or defective duplication of the Netscape Products.

Provided Program Error reports are received by Netscape during Netscape's local California business hours (5am - 5pm PST), Netscape will use its best commercial efforts to communicate with Company about the Program Error, via telephone or e-mail within the following target response time.

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Priority	Failure Description	Response Time
1	Fatal (no useful work can be done).	10 hours
2	Severe Impact (Functionality disabled): Errors which result in a lack of application functionality or cause intermittent system failure.	1 working day
3	Degraded Operations: Errors causing malfunction of non-critical functions.	3 working days
4	Minimal Impact: attributes and/or options to utility programs do not operate as stated.	Next release, on a business justifiable basis
5	Enhancement Request.	When applicable

Netscape will use best commercial efforts to resolve each significant Program Error by providing either a reasonable workaround, an object code patch or a specific action plan for how Netscape will address the program and an estimate of how long it will take to rectify the defect. Netscape reserves the right to charge Company additional fees at its then applicable rates for services performed in connection with reported Program Errors which are later determined to have been due to hardware or software not supplied by Netscape. Notwithstanding the foregoing, Netscape has no obligation to perform services in connection with (i) Program Errors resulting from hardware or software not supplied by Netscape; or (ii) which occur in the Netscape Product release which is not the then current release.

b. Front-line Support. Company, and not Netscape, will provide front-line, or first and second level, technical support to its Distributors, Registered Users and End Users. Such support includes call receipt, entitlement verification, call screening, installation assistance, problem identification and diagnosis, product defect determination, efforts to create a repeatable demonstration of the Program Error and, if applicable, the distribution of any defective media or Updates. Company agrees that any documentation distributed by Company will clearly and conspicuously state that Registered Users and End Users should call Company for technical support for the Netscape Products. Netscape will have no obligation to furnish any assistance, information or documentation with respect to the Netscape Products, to any Distributor, Registered User or End User. If Netscape customer support representatives are being contacted by a significant number of Company's Distributors, Registered User or End Users, then, upon Netscape's request, Company and Netscape will cooperate to minimize such contact.

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Exh. ~~A~~ A

Exh B.
TO Come

N. CHOOSE A SERVICE PROVIDER

**WELCOME TO THE
NETSCAPE INTERNET ACCOUNT SERVER**

With Netscape Navigator Personal Edition, you can automatically create an Internet account with a Service Provider. Please select from one of the options below.

- Local Bell Internet Provider for your area code (770) **BELLSOUTH.net**
- Long Distance Companies & Other Telecommunications Companies
- More Internet Service Provider Choices

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U.S.D.C., District of Columbia

ATTACH E

IAS Term Sheet Attachment

BEING MARKED UP

1. Company Infrastructure/Deliverables.

1.1 Requirements for Internet Access Infrastructure.

Netscape requires, and Company agrees to establish and maintain the infrastructure for Internet access as described below in order that Netscape may provide Subscribers with a choice of competitive Internet access services:

- (a) All POPs must support PPP, with PAP/CHAP compliancy.
- (b) Support for POP3 or SMTP mail servers.
- (c) Support for NNTP for news.
- (d) Verification that each new POP works with Dial Up Kit.
- (e) "Free" test accounts for testing Dial Up Kit.

Test
Free

1.2 Requirements for Account Creation Infrastructure.

Netscape requires, and Company agrees to establish and maintain the infrastructure for Account Creation as described below in order that Netscape may integrate Company with Netscape's IAS:

- (a) Installation of Netscape's ISP Protocol Server (REGD), including SSLD Security Server, on a Unix-based system. Both server front-ends are provided by Netscape to Company.
- (b) Support for real-time account provisioning. Once an error-free account creation process is complete, Subscriber must be able to access Company's service through Company's POPs, with a delay of no more than 10 minutes.
- (c) Support for creating "Free" test accounts for testing account creation process, and Company's Infrastructure.
- (d) Support for capturing and reporting the REG_CHANNEL identifiers and total number of subscribers for each REG_CHANNEL identifier.

30-60 sec.
max

2. Review and Approval of Company Pages. Netscape will have the right to review the content and format of each Company Page prior to including any such page in the IAS. If Netscape determines, in its sole discretion, at any time before or after delivery of any such page by Company that such page contains any material, or presents any material in a manner, that is not appropriate for use in the IAS, Netscape will inform Company of such determination and, if such page is already incorporated in the IAS, Netscape may immediately remove such page from the IAS. Instead of Netscape incorporating such Company Page in the IAS, Company will deliver to Netscape a revised Company Page that Netscape determines, in its sole discretion, is appropriate for use in the IAS. In no event will Netscape be required to incorporate any Company Page or other information in the IAS except as described in this paragraph.

3. License Rights. Company grants to Netscape a non-exclusive license during the term of this Agreement to use, reproduce, electronically distribute, publicly display, and publicly perform the materials delivered to Netscape by Company in connection with the IAS. Nothing in this Agreement gives either party any exclusive marketing or distribution rights.

Company further grants to Netscape the right to use Company's trademarks, trade names, servicemarks, and/or logos in any advertising, promotional, and other marketing materials for the Dial Up Kit and the IAS in a manner consistent with Company's standard trademark usage. Netscape will submit samples of such materials to Company from time to time upon Company's request.

included
in...

PP
requesting
help

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4. Technical Support. Netscape will provide front-line (first line) technical support to users of the Dial Up Kit during the account creation process in accordance with Netscape's then current technical support policies. Company agrees to provide back-up (second line) technical support to Netscape during the account creation process. Company will have sole responsibility for end user support for Internet access services once the user has established a functioning connection directly to the Company.

5. Records and Reports. Company shall use the "REG_CHANNEL" identifier passed through during account creation to sort and total the subscribers for each unique marketing channel created by Netscape. Within thirty (30) days after the end of each month, Company will deliver to Netscape in writing or by secure e-mail a report in the format as specified below showing the number of Subscribers acquired by Company for each REG_CHANNEL through the IAS, that Company billed for a second month's service, and such other information as Netscape may reasonably request from time to time. Commission payments must accompany the monthly report. Company will maintain, for at least three (3) years after termination of this Agreement, accurate books and records relating to Subscribers who signed up for Company's services through the IAS. Netscape shall have the right, no more than once per twelve month period, upon reasonable prior written notice to Company, to have an independent third party verify that Company's compliance with this section 5 including, without limitations, that the number of Subscribers per REG_CHANNEL reported to Netscape is correct. Company shall not have the right to learn information about, or the identity of, each unique marketing channel created by Netscape.

REPORT FORMAT

REG_CHANNELS	Number of Subscribers
Example: NSCP1001	1,207 subscribers

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10/07/96

ATTACHMENT  
OEM MAINTENANCE AND SUPPORT

1. Maintenance/ Updates. In consideration of the Maintenance and Support fee set forth in Attachment B hereto, Netscape will provide to Pacific any Updates made generally available during each one (1) year term that Pacific elects to purchase maintenance, support, and Updates during the three (3) year term of the OEM Reseller License Agreement between Pacific and Netscape dated March 24, 1995. Pacific and not Netscape will be responsible for providing Updates to its Distributors and Registered Users. The expenses of any such distribution will be paid by Pacific. Pacific and Netscape will favorably consider electronic or alternative dissemination methods of such Updates to the extent consistent with both company's policies. Pacific and Netscape agree to discuss quarterly support issues and processes.

2. Technical Support. Also, in consideration of the Maintenance and Support fee set forth in Attachment B hereto, Netscape will provide Pacific with Netscape's backend technical support services, as further described herein.

a. Back-end Support. Netscape will provide back-end support to Pacific for Program Errors not resolved by Pacific pursuant to Pacific's support policies and in accordance with subsection b below. This support includes efforts to identify defective source code and to provide corrections, workarounds and/or patches to correct Program Errors. Netscape will provide Pacific with a telephone number and an e-mail address which Pacific may use to report Program Errors during Netscape's local California business hours (8am - 5pm PST). For priority 1 or 2 failures, Pacific agrees to notify Netscape via telephone, fax and/or e-mail. Pacific will identify one (1) member of its customer support staff and an alternate to act as the primary technical liaisons responsible for all communications with Netscape's technical support representatives. Such liaisons will have sufficient technical expertise, training and/or experience, for Pacific to perform its obligations hereunder. Pacific will designate, in writing and/or e-mail to Netscape, its liaison(s) as soon as possible after the Effective Date, and may substitute contacts at any time by providing one (1) week's prior written and/or electronic notice thereof to Netscape.

Netscape will use its best efforts to correct significant Program Errors, commensurate with the nature and severity of the Program Errors, and in accordance with the terms of this Attachment E, that Pacific identifies, classifies and reports to Netscape and that Netscape substantiates. Netscape may reclassify Program Errors if it reasonably believes that Pacific's classification is incorrect. Pacific will provide sufficient information for Netscape to enable Netscape to duplicate the Program Error before Netscape's response obligations will commence. Netscape will not be required to correct any Program Error caused by (a) Pacific's incorporation, attachment of a feature, program, or device to the Netscape Products, or any part thereof; (b) any nonconformance caused by accident, transportation, neglect or misuse; (c) alteration, modification, or enhancement of the Netscape Products, provided such alteration, modification or enhancement is not made at the direction or authorization of Netscape; (d) the failure to provide a suitable installation environment; (e) use of the Netscape Products for other than the specific purpose for which the Netscape Products are designed; (f) use of the Netscape Products on any systems other than the specified hardware platform for such Netscape Products; (g) Pacific's use of defective media or defective duplication of the Netscape Products; or (h) Pacific's failure to incorporate any Update previously released by Netscape which corrects such Program Error.

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Provided Program Error reports are received by Netscape during Netscape's local California business hours (8am - 5pm PST), Netscape will use its best commercial efforts to communicate with Pacific about the Program Error, via telephone or e-mail within the following targeted response time

Priority	Failure Description	Response Time
1	Fatal (no useful work can be done).	10 hours
2	Severe impact (Functionality disabled): Errors which result in a lack of application functionality or cause intermittent system failure.	1 working day
3	Degraded Operations: Errors causing malfunction of non-critical functions.	3 working days
4	Minimal Impact: attributes and/or options to utility programs do not operate as stated.	Next release, on a business justifiable basis
5	Enhancement Request.	When applicable

Netscape will use reasonable commercial efforts to resolve each significant Program Error by providing either a reasonable workaround, an object code patch or a specific action plan for how Netscape will address the problem and an estimate of how long it will take to rectify the defect. Netscape reserves the right to charge Pacific additional fees at its then standard rates for services performed in connection with reported Program Errors which are later determined to have been due to hardware or software not supplied by Netscape. Notwithstanding the foregoing, Netscape has no obligation to perform services in connection with (i) Program Errors resulting from hardware or software not supplied by Netscape; or (ii) which occur in the Netscape Product release which is not the then current release. *u/s/a*

b. Front-line Support. Pacific, and not Netscape, will provide front-line, or first and second level, technical support to its Distributors, Registered Users and End Users. Such support includes call receipt, entitlement verification, call screening, installation assistance, problem identification and diagnosis, product defect determination, efforts to create a repeatable demonstration of the Program Error and, if applicable, the distribution of any defective media or Updates. Pacific agrees that any documentation distributed by Pacific will clearly and conspicuously state that Registered Users and End Users should call Pacific for technical support for the Netscape Products. Netscape will have no obligation to furnish any assistance, information or documentation with respect to the Netscape Products, to any Distributor, Registered User or End User. If Netscape customer support representatives are being contacted by a significant number of Pacific's Distributors, Registered User or End Users then, upon Netscape's request, Pacific and Netscape will cooperate to minimize such contact.

3. Training. As soon as available for commercial release, Netscape agrees to provide Pacific, at no charge, one (1) copy of media containing a computer based, self-paced tutorial providing training on the Netscape Products licensed by Pacific. Pacific may not copy this tutorial. Additional copies of the tutorial will be made available by Netscape to Pacific at Netscape's cost.