CONFIDENTIAL MEMORANDUM

To: Distribution

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Subject to Protective Order in Nos. 1:98CV012332 and 1:98CV01233) U.S.D.C., District of Columbia

From: Ray Solnik

Project Mercury Quantitative Analysis

Date: August 26, 1996

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

Re:

- 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)

Table I - Analysis Summary For A Typical RBOC *

Sensitivity Case:	<u>Downside</u>	Base	Upside
(Subscribers Q4 96 through Q4 97)			
Microsoft Phonepook - OEM and Retail W'95	3.493		217.669
Microsoft Retail	NĀ	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	5.	3,386	55,312
Netscape Advertising	1,244	3,110	6.220
Netscape "Click and Switch"	<u>.</u>		
Netscape Total	3,372	40.037	403,551
Microsoft - Netscape	158	(13,292)	(168,182)
			1
* Either assume these are upside or they are included	in the PE Dowr	nloads Deal	
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^{*} Base case assumes a 20% market share.

Attachments

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- 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 Bell Atlantic	Greg Buck Bob Beran Bill Heilig	312-526-8245 703-708-4409 703-708-4253
BeilSouth net	Myles Mendelsohn John Robinson Jim McClintock Charles Meyers	703-708-4409 404-685-8005 404-249-4740 770-392-4360
Southwestern Bell Internet Services	Bob Casali Cinay Browne	214-238-3625 210-351-2771
Pacific Bell Internet Services	Rick Hronicek Mark Fisher	415-442-4997 415-442-4997
ce Blanc Williams Johnston and Kronstadt, LLP	Sam Mandel	310-552-1191

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Project Mercury Quantitative Analysis Summary

Sensitivity Case:	Downside	Base	Upside
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Microsoft IE Retail	S X	AN AN	800,112 AN
Microsoft IE Downloads	37	1,552	17,700
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Project Mercury Quantitative Analysis Sensitivity Analysis Table 1

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10 0% 74 6%	60 0% 75 0% 30 0% 3.794,175	15.6% 77.000 28.105.000	400,000 2,500,000 35,0% 74,6% 20%	15.6% 25% 4 63% 150% 2.2.19%	39 0% 20% 74 6% 20%	80% 20% 60% 48 8% 80%	16,000,000

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Project Mercury Quantitative Analysis Sensitivity Analysis Table 1

Sensitivity Case:	Downside	Base	Upside
Percent Of National Users to Select RBOC	2 4 7	7 3%.	15.6%
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Same as phonetrick	Netscape suggests 25% for retail deal, 100% upside 50% downside Same as Phonebook and same as Netscape	No data currently available 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 companiel to Netscape, probably a bit biased towards Netscape since IE only runs on W95 right now	Microsoft claures 1 million downloads in about the first ten days since failuch, reduce by 30% for base case due to faunch blip. 10% upside, 30% downside calculation.	Plugs (e.g. to PRI 22.5% of Netscape hits are from the Pacific Region). Plugs Calculation besend on proportion of number of ISPs in the phonebook.		Consumer Rehavior Steet	Nos.	Base rase from DQuest, Upside is 3x downside variance Dornwol from model GHLY U.S.1:	Prote 12332

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Same as Mirrosoft

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Velscape claims 90% domestic Upside is 3x downside variance

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Same as Microsoft

Calculation

Same as Microsoft, Netscape claims 90% stay on for 60 days

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Netscape claims 62.5% of hits are domestic, used same assumption for Microsoft, 20% upside, 30% downside Assume all consumer Netscape suggests 30% No data currently available, same as Microsoft

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Project Mercury Quantitative Analysis Sensitivity Analysis Table 1

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Total Subscribins

RBOC Share of National Market
Percent of Consumers Who Remail

Percent of Consumers Who Remain Qualified Subscribers FRCO: Qualified Subscribers

CLICK AND SWITCH DEAL

Comments

Same as OEM deal

This value does not take into account any discounts off the rate card. This value exclindes bounties, pusposeful conservative estimates.

Same assumptions as OEM deal

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

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Sensilivity Analysis Table 2 **Project Mercury Quantitative Analysis**

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

Other Assumptions
Base Case

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Sensitivity Analysis Table 2

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

Other Assumptions
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Sensitivity Case.	Total Subscribers	Variance	Comments	
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Netscape Acquisition Grand Total

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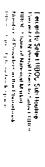


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(Source - Bill White, 8/20/03)

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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.
- 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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- 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. <u>Technical Support</u>. 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 establed 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 purusant 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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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 email 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.	i working day
3	Degraded Operations: Errors causing maifunction 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.

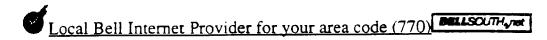


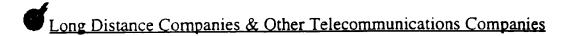
N. CHOOSE A SERVICE PROVIDER

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To Come

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.





More Internet Service Provider Choices

HIGHLY CONFIDENTIAL

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ATTACH C

IAS Term Sheet Attachment

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.

 $\mathbf{V} = (e)$ "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 <u>Unix-based system</u>, Both server front-ends are provided by Netscape to Company.
- 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 your minutes.
- (c) Support for creating "Free" test accounts for testing account creation process, and Company's Infrastructure.
- 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 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. <u>License Rights</u>. 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.

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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.

through during account creation to sort and total the subscribers for each unique marketing channely 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 a

REPORT FORMAT

information about, or the identity of, each unique marketing channel created by Netscape.

REG_CHANNELs	Number of Subscribers		
Example: NSCP1001	1,207 subscribers		

HIGHLY COMPRDENTIAL

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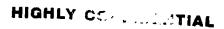
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Subject to Protective Order in Nos. 1:98CV012332 and 1:98CV01233) U.S.D.C.. District of Columbia

ATTACHMENT E 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. <u>Technical Support.</u> 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, artachment 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.

- 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. <u>Training.</u> 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.