



MEMO

TO: Burst Board of Directors

DATE: 25 October 2000

FR: Doug Glen

RE: Board Strategy Meeting

CC: Executive Staff

In mid-December, we will convene for a combined strategy session and board meeting. The decisions made in the meeting will help chart our course for the coming year, which I believe will be the make-or-break year for the company.

Preceding the meeting, you will have an opportunity to review management's analysis of the forces shaping the market, Burst's position and success factors, competition and partnerships. Our sales group will analyze customers won and lost, identifying the key factors in the decisions. Our marketing group will analyze and prioritize the customer value proposition. Development and engineering will report on technology opportunities and threats. Our general counsel will report on opportunities and threats regarding our intellectual property.

I will prepare an analysis of our competencies and competency gaps, both in management and on the board. For both groups, I will draft a matrix of desired criteria versus actual. The board can then discuss and refine our assessment of strengths and weaknesses, and make appropriate recommendations for improvement. As should be clear from the attached matrix, I believe we need additional outside breadth and depth on our board.

Concluding the discussion, we will review our strategic options. By the time of the meeting, we should have a much clearer understanding about where we stand vis à vis Microsoft and Real, SBC, the edge cachers, and the content community. We should also be further along toward recruiting a top tier banker to support us.

For most of its history, Burst has been unable to develop its business in the same way as most successful companies. We were too early to market. We couldn't create markets for our technology single-handedly, and we suffered for it. We rarely had a complete, top-drawer management team. Consequently, we lacked the kind of management practices that usually characterize successful companies. We rarely had credible reports, budgets and forecasts. Department heads have not been held rigorously accountable for performance. In general, we have not done a good job of understanding the forces shaping the market, nor have we developed responsive solutions to real world market needs. All this is changing, and will continue to change.

Shortly, you will receive details on the December board strategy session. I request that you plan to focus entirely on the meeting - no cell phones, no outside calls, no interruptions. Management will return the favor by devoting its entire attention to the

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session with the board.

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Board Composition and Competencies

1 = Highest

"Current" excludes inside board members

| Areas of Required Expertise | Priority (1 to 5) | Current (1 to 5) |
|-----------------------------------|-------------------|------------------|
| Public Finance and Accounting | 1 | 1 |
| Software Engineering | 2 | 5 |
| Public Company Operations | 1 | 2 |
| Telecom, Cable, and Wireless | 1 | 4 |
| Entertainment Industry | 1 | 3 |
| Advertising Industry | 1 | 4 |
| Intellectual Property Stewardship | 1 | 3 |
| Web Technology and Commerce | 1 | 5 |
| M&A, Deal-making | 1 | 2 |

Outside Directors' Compensation I reviewed a survey from Heidrick & Struggles which analyzed the compensation packages which companies of various sizes offered their outside directors. Although we are smaller than the "small company" category, I found many of the observations relevant to Burst.

H&S recommends that (i) adequate compensation should be used to motivate director behavior; (ii) director compensation should be aligned with the long term interests of shareholders; (iii) director compensation should be determined by the board and disclosed fully to shareholders; (iv) each director should have a substantial stock ownership target; (v) directors should be paid in cash and options, tied to participation in meetings and other activities.

Based on the H&S survey, I recommend that Burst outside directors receive a total compensation in the neighborhood of \$35,000. Options are valued at 1/3 of the grant price.

| | Total |
|--|----------|
| Per meeting fee (\$1,000 per each of 8 meetings) | \$8,000 |
| Options (15,000 times \$5.00 times 1/3) | \$25,000 |
| Committee chair supplement | \$2,000 |
| | \$35,000 |

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Partnering For A Total Solution

As I speak with potential Burst customers, I become increasingly aware that we often are selling technical features instead of comprehensive solutions. Particularly for the major content companies, whose core competencies have little to do with digital content distribution, the only solution that really matters is a complete one.

A complete digital media management solution runs the gamut from production, encoding, cataloging, archiving, retrieval, distribution, administration, e-commerce, and delivery/playback. Obviously, with Burst's competencies focused on delivery/playback, we need to join a partnership "ecosystem" that enables our salespeople to present a soup-to-nuts response to a customer's needs. In addition, participating in a partnered ecosystem, we benefit from the sales efforts of our partners.

To be sure, Burst has forged some important partnerships, like Kasenna and Exodus. But for every announcement of a Burst partnership, our competitors seem to announce dozens.

I am asking Burst marketing, sales, and development to collaborate on an analysis of the partner universe and their recommended top priority choices and strategies. I am also asking them to present a recommended strategy for covering the entire gamut of our customers' needs with a partnership matrix.

As an example of the form and format I'm looking for, I have drafted the hypothetical matrix below, which is for illustrative purposes only.

| Category | Partner Universe | Preferred Partner | Status |
|---------------------------|--|-------------------|---|
| Content Distribution | Enron, Lucent, WorldCom, WAM! NET, Kasenna | Kasenna | Full sales partner as of September 2000 |
| Set-top Boxes | Eagle Wireless, Philips, Motorola | Philips | Working on Burst integration |
| Encoding | Loudcyc, Digital Outpost | Digital Outpost | |
| Digital Rights Management | Digimarc, Jaguar, NetResult, Media DNA, PassEdge | Jaguar | |
| Content Logging | Virage, Excalibur, Vitoc, MediaSite | Virage | |
| Web Content Publishing | Interwoven, Allaire, BroadVision, Blue Martini | BroadVision | |
| Interactive Television | Liberate, OpenTV, iMagic, ICTV | Liberate | |

| Category | Partner Universe | Preferred Partner | Status |
|--------------------|--|-------------------|---------------------------------------|
| Content Delivery | Intel, Digital Island, Akamai, Inktomi, iBeam, Enterra | Digital Island | |
| Network Bandwidth | Globix, Exodus Systems | Exodus and Globix | Exodus partnership, Globix investment |
| Advertising Agency | Interpublic, WMP, True North, Y&R | | |
| Media Player | Microsoft, Apple, Real Networks, On2TV | | |