

From: Bill Spencer
Sent: Saturday, May 19, 2001 5:08 PM
To: Kurt Buecheler; Tony Bawcutt; Mauricio Gonzalez de la Fuente; Brad Brunell; Curtis Beck
Cc: Kurt Buecheler's Direct Reports; Denmark West; Carol Koh; Rich Lappenbusch
Subject: RE: DMD investment analysis

Attachments: DMDInvRpt 5-19-01.xls

Brad, Mauricio, Curtis and Tom:

Here is the latest consolidating Kurt's input with Rich and Will's edits. There are many gaps (highlighted in attached) Please everyone double check as this is what Will is presenting. Here are the action items

Per Kurt:

- Tomger, can you add your info to seachange if you have not already done so...
- Bradbr, need your input on evoke ..looks like a template input of words...not the meaningful stuff I am sure you can add
- Key actions are for Brad, Maurigo and Tom

Per Rich:

This file must be scrubbed by Legal very early Monday so I need all the updated fields (shown in light green) by Sunday Midnight.

Will scratched two from DMD ownership

- Audible was Dick Brass
- Di was Thomas Koll

What about:

NextVenue?

Popcast?

Render Morphix?

VDONet?

Thank you all!



DMDInvRpt
5-19-01.xls (38 KB)

----- Original Message -----

From: Kurt Buecheler
Sent: Saturday, May 19, 2001 10:33 AM
To: Paolo Tosolini (Volt); Tony Bawcutt; Carol Koh; Rich Lappenbusch; Bill Spencer
Cc: Kurt Buecheler's Direct Reports; Denmark West
Subject: RE: DMD investment analysis

<< File: dmd deals.xls >>

I have added my input for my 5 investments

Bradbr, need your input on evoke...looks like a template input of words...not the meaningful stuff I am sure you can add

----- Original Message -----

From: Paolo Tosolini (Volt)
Sent: Friday, May 18, 2001 5:51 PM
To: Tony Bawcutt; Carol Koh; Rich Lappenbusch; Bill Spencer
Cc: Kurt Buecheler's Direct Reports; Denmark West
Subject: RE: DMD investment analysis

1

Plaintiff's Exhibit

6970

Comes V. Microsoft

MS-CC-RN 000001036441
HIGHLY CONFIDENTIAL

In our cabinet I was able to find only evidence of the Loudeye investment that I added to the XLS. Looks like we only keep here copies of the Netcredits contracts and not of corporate investments.

Pt

<< File: dmd deals.xls >>

----- Original Message -----

From: Tony Bawcutt
Sent: Friday, May 18, 2001 5:17 PM
To: Carol Koh; Rich Lappenbusch; Bill Spencer
Cc: Kurt Buecheler's Direct Reports; Denmark West; Paolo Tosolini (Volt)
Subject: FW: DMD investment analysis
Importance: High

Paolo is digging out the investment \$ amounts and will reply to this mail.

Comments for iBeam, Akamai, Evoke, Intervue and Digital Island in the xls below

Further justification for investment in the CDN space in general:

Content Distribution Industry

- The CDN value proposition circa 1999:
- Move content to the edge to drive cost saving (see below) MS shared this vision and believed resolving this issue was a huge barrier to the content business.
- Save costs for the content provider: move on copy of the content to the center or the edge of the network. Avoid duplication unicast network pipes being established by users. Achieve economies of scale through shared hosting and network infrastructure
- Save costs for the ISP: move a copy of the content into the ISP's headend. Avoid duplication unicast network pipes being established.
- In addition MS believes that the edge model also dramatically improves the user experience by resolving latency due to multiple router hops, peering.
- CLEC/DSL/Cable companies: difficulty in creating demand for high speed access since availability of BB-specific content was low, therefore true value of BB not evident (limited to fast Internet).

- Reality of the content industry circa 1999.
- Value of the CDN model not understood or validated.
- High costs (even with CDN model) of establishing content distribution infrastructure.
- Unforeseen and therefore unbudgeted download and streaming opportunities meant that even as content companies realized the potential, there was no budget to pay for internet delivery, and would be 12 months before that changed
- CLECs (DSL, cable modem) having hard time convincing users of the value of Broadband, in the main due to unavailability of BB-enabled content. Users saw little other than fast internet.

- MS actions:
- Kick start the content distribution eco-system:
- Invest in the CDNs during formative funding rounds.
- Buy capacity on the CDNs through NetCredits program.
- Give that capacity back to the CDNs to create a virtual sales organization.
- Overcome costs barrier by allowing CDN to give capacity to content provider for limited time.
- Extract certain rights to the content in exchange for internet capacity on CDNs.
- Provide CLECs access to BB-specific content to validate high speed access.

- Objective analysis:
- Should have got out of the investments at the peak of CDN valuations.
- NetCredits created a welfare state mentality within content providers. Should have used a pool and offered bounties on certain content types/labels/studios, and allowed competition within the CDN industry for the business based on additional merit vs simple discount.
- Success in moving content onto the Internet, driving adoption of WM formats, and in kickstarting the eco-system. Believe this may have accelerated the digital media business by one full year.
- Countered the Real threat and helped considerably in moving the Real share of new content in their format from effectively 100% 1999, to effectively 50/50 today.

Overall, contributed to the accelerated adoption of consumer Broadband (principally DSL).

----- Original Message -----

From: Carol Koh
Sent: Friday, May 18, 2001 4:18 PM
To: Bill Spencer
Cc: Rich Lappenbusch; Kurt Buecheler's Direct Reports; Garrett Glanz; Denmark West
Subject: DMD investment analysis
Importance: High

Attached is the template for the DMD investment analysis.

<< File: dmd deals.xls >>

Carol

----- Original Message -----

From: Bill Spencer
Sent: Friday, May 18, 2001 2:49 PM
To: Carol Koh
Cc: Rich Lappenbusch; Kurt Buecheler's Direct Reports; Garrett Glanz; Denmark West
Subject: DMD investment spreadsheet
Importance: High

Carol:

Please send the .xls to kbrd as well as me. My tally of largely inherited deals that people will comment on by 6pm tonight.

AlexLim - ?
BillSpe - 3
BradBr - 3
CBeck - 3
CCalio - 3
ErikHug - ?
KurtB - 3
MauriGo - 3
TonyBa - 6

I will then roll up for Rich by 9am tomorrow.

Thanks

WDMD LED DEALS
Investment Report

DATE	INVESTMENT (COMPANY)	SPONSOR OWNER	ORIGINAL INV VALUE	MARKET VALUE (As of 5/18)	RATIONALE Why did we invest? What did we want?	BENEFIT TO DMD & MS What did we gain?	LEARNING What would we do differently?
PUBLIC							
7/18/99	Akamai	Naveen / TonyBa		\$9,867,454	Kick start the content distribution ecosystem, participate in the growth of value, solve high cost of content distribution, move content closer to edge, improve user experience, support value of BB access, counter Real momentum in format	Format adoption by leading content labels/studios, penetration of WMM/Windows in infrastructure, accelerated market for content distribution and BB adoption by ~ 1 year	Orient NetCredits program to specific content/Real migrations, create competition among CDNs. Insist on Akamai deploying Windows platform per their contract. As Akamai has become the clear #1 control contract leverage
3/27/00	Evoke / Raindance	BradBr	\$5,000,000	\$1,166,357	Kick start the content distribution ecosystem, participate in the growth of value, solve high cost of content distribution, move content closer to edge, improve user experience, support value of BB access, counter Real momentum in format	Format adoption by leading content labels/studios, penetration of WMM/Windows in infrastructure, accelerated market for content distribution and BB adoption by ~ 1 year	Orient NetCredits program to specific content/Real migrations, create competition among CDNs
5/18/00	iBeam	TonyBa	\$5,000,000	\$1,961,462	Kick start the content distribution ecosystem, participate in the growth of value, solve high cost of content distribution, move content closer to edge, improve user experience, support value of BB access, focus on streaming and satellite deliver to head end, counter Real momentum in format	Format adoption by leading content labels/studios, penetration of WMM/Windows in infrastructure, accelerated market for content distribution and BB adoption by ~ 1 year	Orient NetCredits program to specific content/Real migrations, create competition among CDNs. (Beam should have dropped their burn rate, and moved to the Enterprise space sooner)
12/29/99	InterVU (Akamai)	KurtB	\$30,000,000	\$13,321,404	1) So they would invest \$5M in Discover Music and we could keep our Discover equity level under 20% 2) They were gaining huge sales force and customer scale and momentum we wanted to get those customers to WM	1) Discover Music conversion to WM 2) Format adoption by leading ICPs, penetration of WMM/Windows in infrastructure, accelerated some BB adoption by ~ 1 year	Orient NetCredits program to specific content/Real migrations, create competition among CDNs

MS-CC-RN 000001036444
HIGHLY CONFIDENTIAL

3/31/00	Loudeye	KurtB	\$5,000,000	\$867,613	They were moving from services to applications. We felt syndication apps were strategic and we wanted them on Windows. encoding was NOT the reason	They prioritized Windows as the preferred standard sold customers on WM. \$1.5M of encoding converted several firm sites to WM and will convert Amazon to WM in 60 days	They are ex-MSFT people but they have not executed like MSFT. They never shipped the key strategic app (AJAX) should have required dev diligence (not just biz and fin)
	NextVenue	?????	?????	\$128,000	Kurt?		
4/3/00	Seachange	TomGer	\$10,000,000	\$4,653,550			
3/31/00	SRS Labs	? / MaunGo	?????	\$1,545,346	License audio enhancement technology for WindowsMedia Player	MS investment pushed company valuation beyond its business model, company back to where we bought it	
PRIVATE							
11/20/00	CinemaNow	Check	\$2,989,989				
	Discover Music	KurtB	\$5,000,000		Block Real acquisition that would have locked 100 retailers to Real services and formats	They've converted 42 retailers (and counting!) to WM from Real. Have been acquired by	This was a great deal for us. I would have been more aggressive in giving them funding to add services
4/16/00	Syndicate	?????	\$7,500,000				
12/15/00	MediaWave	?????	\$5,000,000				
?????	NaviSite	MaunGo	?????		a) use Navisite as a means to get MS/CMGI relationship started b) build an infrastructure asset for MS in support for Windows Media streaming and Windows2000 ASP		
4/6/00	NextVenue	?????	\$4,000,000				
2/25/99	Reciprocal	Wpoole	\$15,000,000				
3/15/01	Reciprocal (debt)	Wpoole	\$10,000,000				
11/15/00	RioPort	KurtB	\$1,999,999	\$1,999,999			
?????	SignalCom	MaunGo	?????		a) Buy speech codec IP, b) bring into MS the top 4 researchers in the field	Successful acquisition, integrating in WM	
2/26/99	Thingworld.com	Wpoole	\$3,750,000	\$0	Early DRM entry with their ability to wrap content with Security. We felt they would bring the balance of "supply & demand" to internet	Negligible as the market never really happened as and we discovered their technology was too basic	This segment was clearly an area that we should not have partnered and in the end we chose to build our own DRM

	XIRR*	XIRR
	5/18/01	3/13/01

Akamai	-0.24	-0.17
Ibeam	-0.80	-0.13

MS-CC-RN 000001036445
HIGHLY CONFIDENTIAL

Intervu/Akan	-0.36	-0.37
Loudeye	-0.77	-0.83
Seachange	-0.49	-0.63
Evoke	-0.81	-0.78
SRS Labs	-0.65	-0.85
Nextvenue/it	#NAME?	-0.85

NOTES As of 5/18/01

* We used the XIRR function in Excel which takes the initial investment (an outflow) and looks at the current market value (an inflow) and annualizes the return based on our holding period

We also take into account any impairments and FAS 133 impacts related to running net share settle warrants through the P/L

XIRR Function = Returns the internal rate of return for a schedule of cash flows that is not necessarily periodic

EVOKE changed name to Raintance

SRSL has had a good run up in two months

IBEM has gone from \$1.2813 to \$.28

MS-CC-RN 000001036446
HIGHLY CONFIDENTIAL

	XIRR*	XIRR
	5/18/2001	3/13/2001
Akamal	-23.52%	-16.95%
Ibeam	-80.38%	-13.15%
Intervu/Akamal	-36.06%	-38.65%
Loudeye	-76.79%	-83.38%
Seachange	-49.39%	-63.38%
Evoke	-81.42%	-77.88%
SRS Labs	-64.57%	-84.66%
Nextvenue/Ibeam	#NAME?	-66.00%

As of 5/18/01

* We used the XIRR function in Excel which takes the initial investment (an outflow) and looks at the current market value (an inflow) and annualizes the return based on our holding period.

We also take into account any impairments and FAS 133 impacts related to running net share settle warrants through the P/L.

XIRR Function = Returns the internal rate of return for a schedule of cash flows that is not necessarily periodic.

EVOKE changed name to Randance

SRSL has had a good run up in two months

BEM has gone from \$1.2813 to \$ 28

MS-CC-RN 000001036447
HIGHLY CONFIDENTIAL

7/16/1999	(14,999,994.90)	AKAM	MV	9,867,453.54
6/6/2000	(918,576.55)	AKAM_W	Basis	15,001,378.12
3/30/2001	1,383.22	AKAM_W	IRR	-0.235228322
3/30/2001	(1,383.22)	AKAM_W		
5/18/2001	9,865,305.45	AKAM		
5/18/2001	2,146.09	AKAM_W		
5/18/2000	(9,350,196.89)	IBEM	MV	1961461.899
5/18/2000	(649,479.00)	IBEM_W	Basis	10954341.55
3/30/2001	305,186.65	IBEM_W	IRR	-0.80384745
3/30/2001	(305,186.65)	IBEM_W		
5/18/2001	1,940,737.68	IBEM		
5/18/2001	20,724.22	IBEM_W		
12/29/1999	(27,800,001.00)	ITVU_CP	MV	13321404
12/29/1999	(2,200,002.00)	ITVU_W	Basis	112372393.7
6/6/2000	(26,186,193.83)	ITVU	IRR	-0.360630109
6/6/2000	27,800,001.00	ITVU_CP		
6/6/2000	2,200,002.00	ITVU_W		
3/30/2001	340,000.00	ITVU		
5/18/2001	13,321,404.00	ITVU		
3/31/2000	(4,999,997.73)	LOUD	MV	957613.38
12/29/2000	932,103.19	LOUD	Basis	10932098.65
12/29/2000	(932,103.19)	LOUD	IRR	-0.767917325
5/18/2001	957,613.38	LOUD		
4/3/2000	(10,000,004.96)	SEAC	MV	4653549.98
5/18/2001	4,653,549.98	SEAC	Basis	10000004.96
			IRR	-0.493687711
6/22/2000	(14,999,983.00)	ISLD	MV	2072162.6
3/30/2001	1,121,132.75	ISLD	Basis	31121098.75
3/30/2001	(1,121,132.75)	ISLD	IRR	-0.886015926
5/18/2001	2,072,162.60	ISLD		
3/27/2000	(5,000,027.03)	RNDC	MV	731027.3978
12/29/2000	272,356.10	RNDC	Basis	10278714.77
12/29/2000	(272,356.10)	RNDC	IRR	-0.814180697
3/30/2001	6,352.27	RNDC_W		
3/30/2001	(6,352.27)	RNDC_W		
5/18/2001	724,503.44	RNDC		
5/18/2001	6,523.96	RNDC_W		
12/18/1998	(5,000,062.50)	ADBL	MV	17789349.28
12/29/2000	510.00	ADBL_W	Basis	15000570
12/29/2000	(510.00)	ADBL_W	IRR	0.176654142
2/23/2001	(9,999,997.50)	ADBL_CP		
5/18/2001	1,575,000.00	ADBL		
5/18/2001	16,214,129.28	ADBL_CP		
5/18/2001	220.00	ADBL_W		
3/31/2000	(5,000,004.09)	SRSL	MV	1545346.09
3/30/2001	635,532.19	SRSL	Basis	10637540.37
3/30/2001	(635,532.19)	SRSL	IRR	-0.645739634
3/30/2001	2,000.00	SRSL_W1		
3/30/2001	(2,000.00)	SRSL_W1		
5/18/2001	1,513,656.09	SRSL		
5/18/2001	31,690.00	SRSL_W1		
10/3/2000	(4,000,001.25)	IBEM_T2	MV	128000.04
10/3/2000	3,695,511.00	IBEM_T2	Basis	8167133.981
10/3/2000	(3,695,511.00)	IBEM_T2	IRR	#NAME?
5/18/2001	306,020.96	IBEM_T2		