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**From:** Kurt Buecheler  
**Sent:** Sunday, May 20, 2001 1:04 PM  
**To:** Mauricio Gonzalez de la Fuente  
**Subject:** FW: Sports events

you and I need to huddle on this one. ..Monday is fine, please think tonight and make some notes

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

**From:** Will Poole  
**Sent:** Sunday, May 20, 2001 10:05 AM  
**To:** Kurt Buecheler  
**Subject:** FW: Sports events

if/when this comes up tomorrow I'd like you to be able to speak strategically and authoritatively about what should be done. I will hand it directly to you.

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

**From:** Will Poole  
**Sent:** Sunday, May 20, 2001 10:04 AM  
**To:** Bill Gates; Yusuf Mehdi; Bob Muglia  
**Cc:** Jim Allchin; Hank Vigil; Will Poole  
**Subject:** RE: Sports events

This one is not a distraction – it is a fundamental problem that we need to come up with a plan to address. I agree 100% that we need to find a way to get sports and other rich media content in our format and on our network. To do so we need to be able to monetize the content. We will not get it without paying serious \$ to the NBA, NFL, etc – way beyond the \$ DMD has have for promoting the format. So while the formula is simple, the execution requires \$ and headcount to build a streaming service that either is part of our paid subscription service or is funded by ads sold against the content. Don't know if you saw my reply on this topic the other day – it's attached.

This problem is why I've been saying that the MSN/WindowsMedia.com issue goes way beyond common partner selection or look and feel issues of home pages and guides. We need to fix those for sure. But we have had a long term gap in our strategy that Real, and previously Yahoo, and now AOL, are exploiting more and more. We must either decide to get into the "license and monetize" content business, especially in sports, or we have to partner very seriously with someone else who is in that business. I know there is a large ESPN deal under discussion. This may well be the right answer for sports. There will still be other content categories to address though, ranging from music –which we have at least a handle on– to film to general entertainment. IMO we, unlike Real, should skip the smut, although it is and likely will be the most profitable streaming & steaming content category on the web. Rob was harshly questioned in front of the House Judiciary Committee last week by a representative who apparently had found lots of "barely legal" and "true teens" smut on RealGuide. He of course denied knowing anything about it, but nonetheless it was very nice to see him embarrassed so thoroughly in that forum

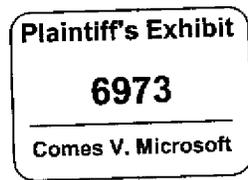
I've attached the 3 slides from my BPR exhibit that address the content & MSN/DMD integration ideas.

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

**From:** Bill Gates  
**Sent:** Sunday, May 20, 2001 9:21 AM  
**To:** Will Poole  
**Subject:** Sports events

I don't want to distract our view tomorrow but unless we can get a some portion of big time sports events to

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be broadcast exclusively in our formats I don't see how we change the current dynamic in the consumer space.

I think by having Office relate to our formats for key scenarios we can make progress in corporate but I am not seeing how we turn the corner in other spaces.

We have invested a lot in our format.

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**From:** Will Poole  
**Sent:** Sunday, May 13, 2001 9:25 PM  
**To:** Bill Gates, Yusuf Mehdi; Bob Muglia  
**Cc:** Jim Allchin; Kurt Buecheler; Leslie Osborn; Cory Van Arsdale  
**Subject:** RE: RealNetworks and SPorts rights

Two primary reasons:

(1) Real has had a reasonably well established model for monetizing content via streaming ads for some time. Premium content is delivered along with streams, banners and other ad products as part of their Take5 content service, which has now been replaced by GoldPass. The MSN ad sales team only recently began developing ad products that can include in-stream audio or video. Other than Music, MSN has not had a content acquisition/licensing/distribution business like Real to date. Windows does not license content for redistribution – value of our promotion accrues to our partners and to us indirectly through the purchase of streaming servers.

(2) they have a new model of selling GoldPass subscriptions for \$9.95 / mo – they have 200k subscribers since starting ~9 months ago. Both MLB and NBA require GoldPass subscription for access.

Additional things that help Real:

(3) Real has the Real Broadcast Network (effectively a scaled CDN like iBeam) which they use for content encoding and cheap nationwide broadcasting, enabling them to control the content from signal acquisition through consumer delivery, helping with #1 above and keeping costs down

(4) They use premium [and other] content to promote sale of PlayerPlus at \$29.99. We don't have an equivalent revenue stream to the Player Plus yet (although will have XP Plus this fall – although it is a different animal and not based only on streaming features like PlayerPlus).

Check out the front page of <http://www.real.com/> to see this in action.

Yusuf's and Bob's and my teams have been working on a variety of plans which we can discuss in the BPR tomorrow if you want. We do not have a specific answer to the big \$ sports rights deals yet though.

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

**From:** Bill Gates  
**Sent:** Sunday, May 13, 2001 5:49 PM  
**To:** Will Poole  
**Cc:** Jim Allchin; Yusuf Mehdi  
**Subject:** RealNetworks and SPorts rights

Why is it that Real says they can make money doing these Sport rights deals and we/partners can't?

Its hard to ever establish our player as key if they keep getting the most visible exclusives.

We can't afford to lose on these things but neither can they.

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# MSN & Audio/Video Media

- Internet broadcast capabilities/competition increasing
  - Consumer digital media use up 30% YOY (April 00/01)
    - 55% of internet users; 22% do video; 27% radio; 36% download
  - Real as “Next DirecTV”: proprietary content; pipes; consumers
    - 200k subscribers to GoldPass at \$9.95/month
    - MusicNet subscription music content from majors
  - AOL + exclusive TW content → strong consumer allegiance
  - WindowsMedia.Com 7% reach; Real Network 14.5%
- Content providers looking to monetize assets
  - MLB, NFL exclusive deals w/ Real; many others internationally
  - Web streaming content sites going under at fast rate
- MSN needs to make new commitment to digital media
  - Ad products to create sustainable biz model
  - Subscription offering to attract users and content (e.g., PersonalPlus movie offer, unique content etc.)
  - Programming of broad and deep content on world-wide basis

# MSN and Windows DMD Action Plan

- MSN/DMD efforts
  - Ad sales 100% aligned
  - Coordinated on Music
  - MSN rich media ad products started
  - DMD sourcing entertainment content
  - Promo coordination: NIPs, MIHP, etc.
  - Joint WW partner engagement model
  - Intl media guides xferring to MSN
- Challenges
  - Plan for MSN (beyond music)
  - Commitment to programming, w-wide
  - Partner overlap (MTV / MSN Music)
  - Need good rev-share or other models that generate \$ for MSN & ICPs
- New commitments Required
  - Committed & funded 24 month DM programming plan for MSN
  - Clarify
    - MSN == programming
    - Windows == Windows user experience
    - Role of ads in Windows experience
- Open Issues
  - Branding
  - Finalize ICP engagement model
    - US: ~300 ICPs + 3,000 radio
    - Intl: ~1,000 aggregate in top 20 countries
    - WW Directory (~10k sites)
  - Optimal org to execute on plan

# Media Competition to MSFT

AOL+Real

- Consolidated media model combines:

- Large online audience
- Offline cross promotion
- Exclusive content
- Model to monetize Rich media
- Technology and services

- Example on AOL+Real

- Online: 30M subs; 75 reach
- Offline: print, cable, theater
- Content: Warner music, film, TV
- Rev: AOLplus, Real Goldpass
- Tech/svs: Real IQ, RBN

## Competitive summary

	A/R	MSN
Large online audience		
Offline cross promotion		
Exclusive content		
Biz model to monetize RM		
Technology and service		

### Taking action:

- Build MSN consumer offerings: Music, Film, Sports
- Build .NET services for content owners
- Build a WW content distribution network via MSN Int'l coordination