
From: Dave Fester
Sent: Wednesday, February 04, 2004 8:53 AM
To: Chad Hodge; Andre Bazire, Kevin Unangst, Jonathan Usher
Subject: FW: Video and Music licensing

Please do not forward...

From: Bill Gates
Sent: Wednesday, February 04, 2004 7:54 AM
To: Will Poole
Cc: Frank Barbieri; Todd Warren; Amir Majidimehr; Dave Fester; Hadi Partovi; Alexander Gounares; Joe Belfiore; Brad Brunell; Scott Moore; Scott Horn; Paul Campbell (WINDOWS MEDIA); Bill Spencer; Pieter Knook; Hank Vigil; David Cole; Yusuf Mehdi; Christopher Payne; Kimberly Till; Robert (Robbie) Bach
Subject: RE: Video and Music licensing

This helps answer a lot of my questions but I still am confused about the MSN store versus faciliatating other people making download available for music and video.

From: Will Poole
Sent: Wednesday, February 04, 2004 6:06 AM
To: Bill Gates
Cc: Frank Barbieri; Todd Warren; Amir Majidimehr; Dave Fester; Hadi Partovi; Alexander Gounares; Joe Belfiore; Brad Brunell; Scott Moore; Scott Horn; Paul Campbell (WINDOWS MEDIA); Bill Spencer; Pieter Knook; Hank Vigil; David Cole; Yusuf Mehdi; Christopher Payne; Kimberly Till; Robert (Robbie) Bach
Subject: RE: Video and Music licensing

I'm working as executive sponsor to solve the "Content Flow" challenge and to coordinate the individual Windows and other product group needs relative to commercial audio and video content into a cohesive strategy. As we discussed briefly in the last CLT meeting, that effort is being driven for me by Warren Lieberfarb, the ex-head of Warner Home video, who drove the adoption of DVD, and by Charles Mauzy who manages the Windows Client Strategy and Policy teams for me. The virtual team includes many of the people on the cc: line of this email.

The virtual team is holding an offsite on 27 February with myself, Amir Majidimehr, Hank Vigil and Pieter Knook to rationalize near term content flow for Summer/Fall 2004 products (Symphony and PMC) as well as to develop the long term plan to ensure that we have the plans and resourcing necessary to deliver compelling consumer Audio/Video scenarios and deep catalog, in sync, with the Longhorn and Xenon launches (and before, in many cases).

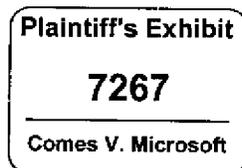
It is crucial that Microsoft find coordination to get a successful through-line with the Studios/Labels and through Retail. Windows will coordinate closely with X-Box, MSTV, MSN and Field Sales so that we optimize the Studio/Label, Distributor, Retailer and OEM/IHV/ISV relationships effectively. The other participants in the M&E value chain will be unlikely to make sufficient resource investments so there is an opportunity for Microsoft to lead in building an end to end ecosystem. We will need to actively lead if we want it to go at our desired speed and to align to our technology plans versus Sony/Philips/MEI or Apple.

Jane will coordinate with Christine for a Briefing/Discussion in March 2004.

To answer your specific questions (in italics below):

First is IMAX. Richard Gelfond Co-CEO rgelfond@imax.com (212) 821 0188. They said they have rights to lots

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of cool stuff and that they don't mind having the parallel distribution.

Curtis Beck in DMD business development has procured 10 IMAX titles in High Definition format as 2nd DVDs in the DVD packaging. These titles, which were announced at CES, came from McGilvary Freeman which is the largest independent producer for IMAX. Curtis will contact Gelfond to drive a similar relationship with IMAX.

Second was Christe Hefner from Playboy. She sent me a fax afterwards asking who she should talk to. Christine Turner has the fax. I assume Frank will make sure the right person follows up with these people.

Frank and Paul Campbell will engage.

We want to encourage lots and lots of people to offer video in our format. We don't want to have to get in the middle on all these transactions.

The model here will be a wholesale/distributor to retail relationship. Someone like Disney will act as their own wholesaler to the many retailers such as Best Buy, Wal-mart . etc Ownership of the customer relationship and the \$ transaction will be with the retailer. It is still not clear whether the Retailer or the Distributor who issues DRM licenses. In the music space, both Retailers and Distributors have owned DRM license issuance.

Microsoft will not be in the middle of the transaction, except in the case of MSN where it is acting as a large retailer. The MSN plans has caused challenges from other retailers with regards to Windows Media technology adoption. We need to be thoughtful about how we continue to manage these relationships. I'm working with Hank and Yus to do so.

Are we think we can get all the different varieties of videos? I am unclear on what release date we will get the videos (DVD I hope – VOD is so late).

Sony Pictures Digital Networks has the most aggressive plans to do sell through of movies, TV content and music videos in 2004; they plan to use Windows Media non-exclusively. Other Studios will slowly follow this precedent and we anticipate having some sell-through of video at the Home Video (DVD/VHS) release window in 2004.

There are significant complexities to getting content to move because of existing contractual commitments to distribution channels, talent contracts...etc. It is likely that Sony has taken 2-3 years of contract work to get the rights cleared for their very ambitious service. We are attempting to spur the other studios to move in similar fashion but they will likely not get critical mass until 2005.

I am unclear if we will emphasize one time watching or buying or support both.

Both. The economics are much more favorable on a sell-through model; today the studios are protecting their other distribution channels by relegating Internet to the PPV release window. The studios will be very conservative to offer any digital delivered product that could jeopardize the DVD sell-through as they are reaping huge revenues (approaching 50% of total business) and 60-80% gross margins. We have business work and will have to likely offset the risks to start and/or accelerate significant content flow that is aligned with Windows requirements.

I am unclear how unified the streaming and download approaches will be. I am unclear on how we will get to critical mass if we try to be in the middle. I am unclear if whatever we are doing cool for music we are doing for video.

If you look at the Movielink and CinemaNow services, they have reasonably presented streaming and download; download is good enough with progressive download that users can start watching the video within a few minutes. OTOH some providers may offer streams only for perceived additional security.

Basically I am excited that we have a chance to be a leader with PMC and the world is very excited to see what we are doing. The video people I talked to know they have to do something quickly and they were very interested in talking to us. They know the DVD bits are out just like the CD audio bits are out.

PMC is significant because its lower resolution than DVD (although it looks great on the small screen!) and

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because there is a case history with music that they must fill the device with authorized content or train the user to take content. Setting the precedents with PMC should be a fundamental building block; but the unit volumes of PMC will be relatively low and video distribution is much better than was music, so our expectations should be a for a gradual ramp and adoption curve on PMC consumption. We think it may be educational content (learning new language) or kids (cartoons) or adult that spurs usage/adoption scenarios.

We've been having some very interesting "authorized DVD ripping" discussions with the studios and there is a reasonable probability that we may break through this year or next on DVD ripping to the hard drive (and subsequently to a tethered device).

Will Microsoft look like an innovator with an open approach but one that is simple for people to use? I am confused about this and wonder if we need to meet to discuss this. Is it even clear across the org boundaries exactly who is doing what?

Let's meet in March to discuss the scenarios, the business models and MS personnel roles and responsibilities. Right now we are somewhat fragmented, but the virtual teams are coordinating fairly well; we recognize the issues and are taking steps we need to do to get to a correct path.

From: Bill Gates
Sent: Tuesday, February 03, 2004 9:56 AM
To: Frank Barbieri; Todd Warren
Cc: Amir Majidimehr; Dave Fester; Hadi Partovi; Alexander Gounares; Joe Belfiore; Brad Brunell; Scott Moore; Scott Horn; Paul Campbell (WINDOWS MEDIA); Bill Spencer; Will Poole; Pieter Knook; Hank Vigil; David Cole; Yusuf Mehdi; Christopher Payne
Subject: Video and Music licensing

When I was at Davos I met with a lot of media leaders.

I suggested to them that the combination of the success of Media Center and the upcoming Portable Media Center devices and the desire to stop piracy will get the video industry to offer both downloadable and streaming content that works with native Windows and that the flexibility for users would be far better than what they have with iTunes.

People got excited about this and a number of them came up and said they wanted to work with us on this.

Two companies in particular I said I would make sure someone would follow up with

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Second was Christe Hefner from Playboy. She sent me a fax afterwards asking who she should talk to. Christine Turner has the fax. I assume Frank will make sure the right person follows up with these people.

I am still confused about our approach however.

We want to encourage lots and lots of people to offer video in our format. We don't want to have to get in the middle on all these transactions.

However we want there to be a catalog that spans all the offerings (except perhaps adult) and we want it to be easy to buy – we want the UI to be simple and ideally consistent.

iTunes succeeds in offering a consistent UI and a catalog. However it does this by always being in the middle of the transaction.

If you do that then you have to try and sign deals with everyone all over the world and make people like Walmart and others feel like you are competing with them and the complexity and liabilities are huge for a business that isn't going to generate much margin if any

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Right now that is our default case for Music although we need to talk more about how we appear to advance the industry and work with a lot of people other than Apple.

For Video I am confused about what we are doing. Are we telling Disney that they download through us and we are in the middle of the economics?

Are we think we can get all the different varieties of videos?

I am unclear on what release date we will get the videos (DVD I hope – VOD is so late). I am unclear if we will emphasize one time watching or buying or support both. I am unclear how unified the streaming and download approaches will be. I am unclear on how we will get to critical mass if we try to be in the middle. I am unclear if whatever we are doing cool for music we are doing for video.

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