

From -@- Mon Oct 06 02:37:01 1997
Date: Mon, 06 Oct 1997 02:37:01 -0800
Date: Mon Oct 06 02:37:01 1997
Received: from gobgdell.real.com (sfdn16-131.sf.compuserve.com) by murrow.progne
t.com with SMTP id AA05233
(5.67D/IDA-1.5); Mon, 6 Oct 1997 02:34:55 -0700
Message-Id: <3.0.2.32.19971006023353.007c3100@mail.prognet.com>
X-Sender: robg@mail.prognet.com
X-Mailer: QUALCOMM Windows Eudora Pro Version 3.0.2 (32)
Date: Mon, 06 Oct 1997 02:33:53 -0700
To: brucej@prognet.com, mariac@prognet.com, philba@prognet.com,
lenj@prognet.com, jbreyer@accel.com, philipr@prognet.com,
markk@prognet.com, kellyjo@prognet.com, erikm@prognet.com,
higa@prognet.com, johna@prognet.com, mkapor@kei.com
From: Rob Glaser <robgl>
Subject: Microsoft Meeting Report #2
Mime-Version: 1.0
Content-Type: text/plain; charset="us-ascii"
X-UIDL: f063ef62ce2af498437bcd32fe67ea3bf

Attorney-Client Privileged
RN Confidential -- Do Not Forward

On Tuesday Phil, MartinD, and I met with Anthony Bay, then on Thursday I had a follow-on call with Anthony.

In the meeting we showed Anthony (in his role as virtual Bob Muglia while Bob is on sabbatical) major elements of Realsystem 5.0 and discussed whether MS wanted to be involved in the launch and more generally how MS might want to work with us regarding RS 5.0. [A separate memo covers the parts of the conversations related to current MS/RN business issues.]

His reaction to seeing RS 5.0 was interesting. He was very impressed by the full screen 100-300 KBit video. He thought the new audio was nice but was less impressed. He thought ad insertion and commerce stuff was good. (We purposely didn't show him Flash as this involves Macromedia and we hadn't gotten full approval from Macromedia at the time of the meeting).

After the demo we talked about some tactical stuff -- e.g. how MS wanted to be positioned/involved in the RS 5.0 launch, and some strategic stuff -- what we should do together in the long-term.

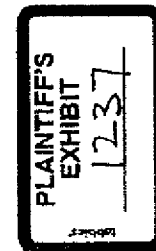
On a tactical level we proposed that RN could position RS 5.0 as strongly supporting Microsoft platforms (e.g. NT, Back Office, Site Server) if this would help enable MS to come out "in support" of RS 5.0, which after all contains many new innovations that Microsoft has an optional license to.

Anthony was not very interested in engaging in this discussion, in advance of and in the absence of figuring out whether there truly was a plan for better long-term alignment between the companies.

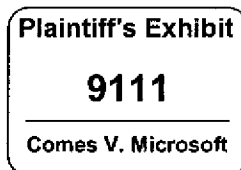
Since we agreed that it would be close to impossible to achieve this alignment in advance of the announcement, we agreed (in our Thursday phone call) to:

- not have MS involved in the launch;
- set up a follow-on meeting with me, anthony, and Jim B. for thursday or Friday in Seattle; and
- endeavor to conduct the launch and our mutual comments about the launch in a way that preserved the greatest chances of achieving a good result in that follow-on meeting. (In support of this, I agreed to draft up a brief proposed MS/RN Q&A document and send it and a copy of the press releases to Anthony over the weekend. I will be doing this tonight.)

On a strategic level, Anthony doesn't want us to be in the horizontal systems software business, probably not even as a technology provider to MS. Anthony said explicitly that he doesn't want to exercise the MS \$25 or



RN 012372
HIGHLY CONFIDENTIAL



MS-CCPMDL 000000155013

\$35 Mil options. The clear implication is that he would view an exercise as a failure not only on Durkin & co's part but also on his own part.

While he says he is open to discussing a range of outcomes, his clear perspective is that RN should 'leave the platform to us' and go be an ISV like SAP. When we point out to him that we also have a Broderbund type consumer business, he says fine go be a Broderbund too.

Unfortunately, he has thus far not been willing to engage in a serious discussion about how MS would help RN achieve success in both the Broderbund and SAP type of businesses. In sum, there is no data that suggest that he is putting serious thought into how to make the relationship win-win.

Of course there is nothing about Microsoft culture that trains or rewards win-win behavior, so Anthony's perspective is not surprising. Anthony's perspective is also not surprising that given the current mutual level of acrimony between his Netshow team and RN. His behavior clearly suggests that he is much more concerned about being perceived as being Neville Chamberlain than Dr. Strangelove.

The good news, if there is any, is that Anthony is both very mature and very political, so if we can put a proposition on the table that is legitimately win-win and that key senior people at MS (e.g. starting with Maritz) buy into, Anthony is unlikely to fight the proposal.

Next step is for me to work with a number of you to pull together this kind of proposition, then for us to strategize how to best work it within Microsoft.

In sum, for planning purposes we should assume that the next period will continue to be rocky and substantially adversarial between MS and RN, even as I and a few others are putting substantial effort into figuring out ways to make this less true and perhaps (a real long-shot) even fundamentally win-win.

RN 012373
HIGHLY CONFIDENTIAL