

Karl Neumann (LCA)

From: Paul Maritz
Sent: Monday, July 14, 1997 3:18 PM
To: Anthony Bay; Bob Muglia (Exchange)
Cc: Jim Alchin (Exchange)
Subject: FW: Progressive Networks

fyi

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

From: Greg Maffei
Sent: Monday, July 14, 1997 3:02 PM
To: Paul Maritz; Bill Gates
Cc: Christine Turner; Kay Barber-Eck
Subject: RE: Progressive Networks

I completely agree with Paul's view about needing to view them as potential competitors. Their business model without server revenue (i.e., plus-clients, content-hosting, value-add on servers) looks very thin. They had \$7m of revenue in Q1CY with about 60% from servers. This does not support the \$300m valuation at which we invested, nor the \$225m valuation they got in their September financing. They may find other business opportunities, but I think they will be tempted to muck around with us.

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

From: Paul Maritz
Sent: Monday, July 14, 1997 9:58 AM
To: Bill Gates
Cc: Greg Maffei; Christine Turner; Kay Barber-Eck
Subject: RE: Progressive Networks

I can come over for a few minutes between 12:30 and 2pm if needs be.

To summarize deal again very quickly:

- we pay PN \$30M and make \$30M investment (10%)
- we get snapshot of their RAR/V4.0 code base - all platforms, client & server, rights equivalent to ownership, source and binary.
- we get right to use trademarks RAR/V with RAR/V 4.0 compatible products
- we get options of 2 further snapshots (1st & 2nd anniversaries) for \$25M and \$35M.
- PN gets one year access to Netshow source for purposes to porting to UNIX.
- Licenses are non-exclusive (both ways), but we get money back if PN licenses source to other parties.
- Patent cross license in streaming media area.

The short answer to "will we compete with them in audio/video servers" is complicated. The probable answer is "yes". The rationale behind the deal was that Robg recognized that we were going to step up our efforts, and decided that if we were going to be serious about competing, then he wanted us competing with "his technology" so that it would be easier for him to move to selling "value-add" on top of the "base platform" being sold by MS (even though we have not committed to how we will actually use "his" technology). Hence he has sold us snapshot of his technology. So in this sense, Robg expects to not compete with us. However, it is complicated because all of us have hard time figuring a "value-add" or non-base s/w business that can yield \$300+M valuation, so we expect that Robg will have hard time giving up on base software business, and may try to figure out ways to get our stamp of approval and then do further proprietary things to stay ahead of us. So I have been consistent in saying to our development group that we have to really pull out all the stops to get a Netshow product out that is RAR/V compatible, and "use his stamp of approval" to aid us, and really give him no option but to look for new businesses. We have window of opply we must hit.

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

From: Bill Gates
Sent: Monday, July 14, 1997 9:46 AM
To: Paul Maritz
Cc: Greg Maffei; Christine Turner

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Subject: Prdgressive Networks

I have my meeting with Rob today.

Although I want to talk about the Internet in general I need to understand our deal with them better. Maybe I should read the contract or maybe there is a summary somewhere.

Will we compete with them on audio/video servers on NT? This is the part I don't understand and its fairly important.

Christine - there may be someone else who can brief me on this. Its fairly important I get smart before 2pm.

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