RealNetworks STRATEGIC REVIEW

December 18th, 2000

RealNetworks Strategic Team

Strategic Review - RealNetworks   Boeing Microsoft Confidential - Internal Use Only   1

This presentation will be presented to Ben Waldman, Bill Veghte; Brad Chase; Craig Mundie; Jon DeVaan; Paul Gross; Ted Kummert; Will Poole; Yusuf Mehdi; Bruce Leak; Mich Mathews; Peter Ollodart; Brian Valentine; Charles Stevens; Chris Atkinson; David Cole; David Vaskevitch; Deborah Willingham; Eric Rudder; Jim Allchin; Mike Nash; Kent Scott; Orlando Ayala; Paul Flessner; Sanjay Parthasarathy; Carl Stork; Mich Mathews; David Martin (WINMKTG); Amar Nehru; Christopher Frank; Gail Dykstra; Alan Yates; Brad Goldberg; Michael Goulde; Sherri Bealkowski; Bill Landefeld; Bill Benack; Wendy Kahn; Rich Lappenbusch; Doug Miller; Overall Competitive Analysis Team; Rich Glew; Tim Rowe; Liz King; Mike Porter; Kerry McGowne

RichLap and DenWest will lead the presentation. KurtB, Dcaulton, DWorkman, Gschare, will also present segments.

"I think streaming media and digital delivery of media will be a standard part of everyone's life, just as cable TV and the VCR have become a standard part of the vast majority of Americans' lives over the past 15 years. In five years, if we're not quite at that level of ubiquity and pervasiveness, we'll be pretty darn close." - Rob glaser
http://www.businessweek.com/ebiz/9905/em0505.htm

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Agenda

- ▶ Company
- ▶ Financials
- ▶ Revenue
- ▶ Market
- ▶ Solutions
- ▶ Customer Segments
- ▶ Demonstrations
- ▶ Sales
- ▶ Public Policy
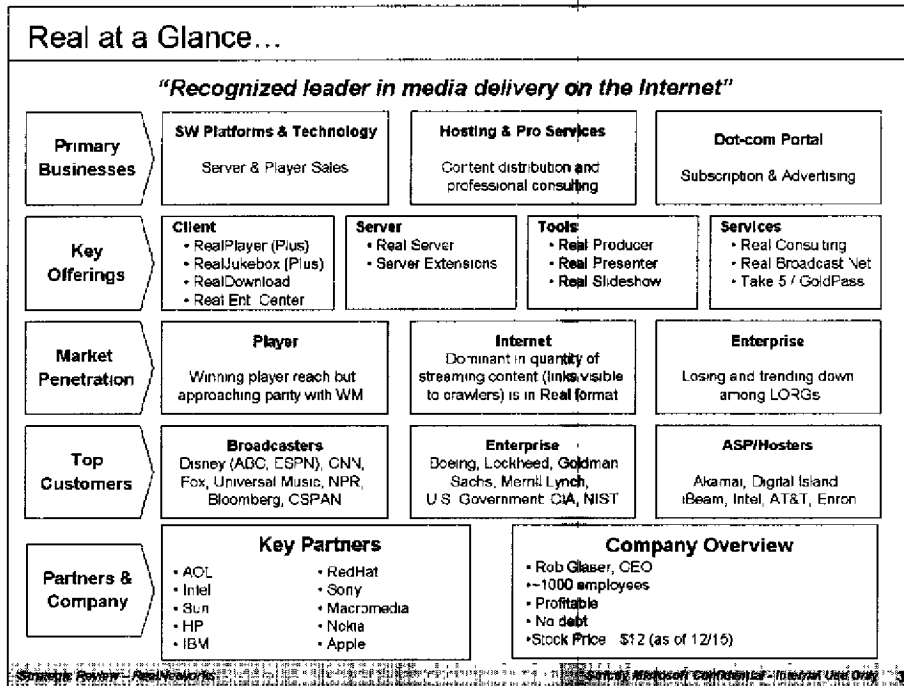- ▶ Strengths & Weaknesses
- ▶ Issues & Recommendations

Rich Lappenbusch

Top Points made on this slide (Points form understanding-leading to conclusions later)

1.
2.
3.
4.
5.

Why do I care about this slide BECAUSE

Speaker Notes...

Real at a Glance...

"Recognized leader in media delivery on the Internet"

Primary Businesses	SW Platforms & Technology	Hosting & Pro Services	Dot-com Portal
	Server & Player Sales	Content distribution and professional consulting	Subscription & Advertising

Key Offerings	Client	Server	Tools	Services
	• RealPlayer (Plus) • RealJukebox (Plus) • RealDownload • Real Ent. Center	• Real Server • Server Extensions	• Real Producer • Real Presenter • Real Slideshow	• Real Consulting • Real Broadcast Net • Take 5 / GoldPass

Market Penetration	Player	Internet	Enterprise
	Winning player reach but approaching parity with WM	Dominant in quantity of streaming content (links visible to crawlers) is in Real format	Losing and trending down among LORGs

Top Customers	Broadcasters	Enterprise	ASP/Hosters
	Disney (ABC, ESPN), CNN, Fox, Universal Music, NPR, Bloomberg, CSPAN	Boeing, Lockheed, Goldman Sachs, Merril Lynch, U S Government CIA, NIST	Akamai, Digital Island iBeam, Intel, AT&T, Enron

Partners & Company	Key Partners	Company Overview
	• AOL • RedHat • Intel • Sony • Sun • Macromedia • HP • Nokia • IBM • Apple	• Rob Glaser, CEO • ~1000 employees • Profitable • No debt • Stock Price $12 (as of 12/15)

Rich Lappenbusch & Gary Schare

Dave Fester (script)

Top Points made on this slide (Points form understanding-leading to conclusions later)

1. This slide is designed to bring you up to speed fast on what Real is and where they do business.

2. We are going to cover all this today so we won't drill into this slide.

3.

4.

5.

Why do I care about this slide BECAUSE We want everyone present to get a high level view before we start diving into to details.

Speaker Notes...

•Dominant in quantity of streaming web content (links visible to crawlers) is in Real format

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Why Does Microsoft Care About RealNetworks?

- **Real threatens Windows desktop relevance and usage**
  - *Microsoft may no longer be the driver for digital media excitement on PCs*
    - Digital media is the next big thing on business and consumer desktops, pushing os/pc upgrades and excitement
  - *Invading the user experience and moving users to their environment*
    - Real everywhere throughout the desktop, selling billboards
    - Once user is in Real, you don't need Windows for media
- **Real threatens Windows growth opportunities**
  - *Windows for consumer entertainment and devices threatened by embedded Linux with Real Platform + Partners*
  - *Unix shops deploying streaming don't need Windows 2000 Server*
- **Real threatens MSN in broadband and media**
  - *Real is already an extension of AOL*
    - Collectively control UI, content, platform, advertising and sponsorship
    - Extensively integrating communications products and services e.g. AIM optimizations, Net2Phone
  - *Battle shifting to consumer usage, not distribution*

Rich Lappenbusch

Dave Fester (script)

Top Points made on this slide (Points form understanding-leading to conclusions later)

1. Real threatens 2/3 MS core businesses today.
2. Real threatens our growth
3.
4.
5.

Why do I care about this slide BECAUSE we can lose control over our ability to

Speaker Notes...

> e.g intercepting download experience

Disintermediates windows from the media experience with linux appliance.

Free OS matters in Consumer electronics device mfrs because of price point if it can do what they need in media infrastructure

> Digital media is the next big thing on business and consumer desktops, pushing os/pc upgrades and excitement– if Real wins:
>> Why upgrade Windows?
>> Why Media .NET? Real has the media platform and services all in one

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Company Overview

Financials

Founded: 1994

	LTM ending 30-Sep-00	CTM ending 30-Sep-99	Growth
Revenue	$ 226,762	$ 108,391	109.2%
S&M expense	$ 93,479	$ 46,691	100.2%
R&D expense	$ 53,499	$ 32,253	65.9%
Operating income	$ (86,537)	$ (7,437)	1083.6%
Net income reported	$ (70,714)	$ (1,362)	5091.9%
Net income adjusted'	$ 33,598	$ 2,169	1448.6%
Cash & equivalents	$ 359,447	$ 326,753	10.0%
Total assets	$ 578,350	$ 382,405	51.2%
Deferred revenue	$ 60,264	$ 38,309	57.3%
Employees	$ 968	$ 600	61.3%
Revenue per employee	$ 62,256	$ 63,848	-2.5%

	8-Dec-00	31-Dec-99	
Market Capitalization	$ 2,256	$ 9,286	75.7%

*Adj. Net income ex. goodwill amortization, acquisition charge, and per cash stock compensation

Ownership	
Rob Glaser	34.4%
Other directors and officers	11.1%
Institutions	32.5%
Retail	22.0%

Source: Bloomberg, FirstCall, RealNetworks IDG, IDC, ISI, Prospectus dated 6/18/99

Board

Robert Glaser, Chairman/CEO
- Founded company in 1994
- 10 years at Microsoft, most recently VP of multimedia and consumer systems
- Age 39

Edward Bleier, Director
- Director since April 1999
- Since 1994, President of Domestic Pay TV, Cable & Network Features for Warner Bros.
- Chairman of the Steering Committee of bi-annual Aspen Communications Institute conferences for the leaders of the television, film and cable industries
- Age 75

Mitchell Kapor, Director
- Director since October 1995
- Partner at Accel Partners, LP since January 1999
- Designed Lotus 1-2-3; founded Lotus Development Corp and served as CEO from 1982 to 1986
- Age 47

James Breyer, Director
- Director since October 1996
- Managing Partner of Accel Partners, LP since November 1995
- President of Western Association of Venture Capitalists
- Age 38

Bruce Jacobsen, Director
- Director since August 1997
- RealNetworks President and COO from February 1996 to November 1998
- 9 years at Microsoft, including GM of Kids/Games business unit
- Age 40

KEY POINTS
Financials: Strong historically
- High revenue and profitability growth
- R&D not keeping pace
- Impressive employee growth

Board: Well respected and indicative of positioning
- Intimate knowledge of Microsoft products and practices via extensive work experience
- Luminaries represent various fields related to the business: Venture Capital, Content Programming and software management
- Ties to Warner Bros. through board representative of growing closeness between AOL/TW and RNWK

Ownership: Highly concentrated
- 45.5% owned by insiders, 34.4% owned personally by Rob Glaser
- Glaser's stake is down from 45.4% as of December 31, 1998 via dilution from acquisitions and a secondary offering and from selling his shares
- Maria Cantwell exercised 193,200 options for $11M to fund her successful senate campaign

Ownership

① Insiders: Directors and Officers	② Outsiders: Institutions and Retail

③ Influencers: Analyst Coverage	④ Key Points:
➢ Sell side analysts most directly influence new purchases by institutions and high net worth individuals	➢ Insiders and original institutional investors are selling
➢ Large numbers of new analysts with positive ratings could help to explain the rotation among the institutional base as prior holders take profits or get buyer's remorse	➢ Retail investors have been scared off by dot carnage of market correction
➢ Generally position Real as a core tech holding	➢ New institutions (and some old ones) filling the gap upon the recommendation of analysts
	➢ Newest investors (institutions) probably more sensitive to swings in confidence among the analysts
	➢ Further correction possible, but little risk of implosion (a la DSL stocks) given strength of fundamentals

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Organizational Structure

Rob Glaser, Chairman & CEO
[968 reports]

SVP Consumer Richard Cohen [115 reports]

SVP Media Systems Martin Plaehn [325 reports]

SVP Int'l Phil Murphy [140 reports]

SVP, Consumer Appliances Len Jordan[2] [50 reports]

SVP, Media Technologies Phillip Barrett [125 reports]

SVP, Gen Coun Kelly Jo MacArthur[3] [20 reports]

SVP, CFO Paul Bialek [136 reports]

VP, N Am Sales, Media Systems Tom Hull[4] [111 reports]

GM, Prof Services Martin Schwarz [100 reports]

VP, Product / Systems Mgmt Mark Bratl [12 reports]

GM, RBN Ian Freed [30 reports]

GM, Mktg Tools/Systems Ben Rotholtz [40 reports]

Creative Director Steve Grimes [20 reports]

VP, Commun. Eric Liu[5] [20 reports]

Strategic Adv. Richard Wolpert [1 report]

VP, Corp Dev Randy Tinsley [10 reports]

Dir IR Jay Wampold [0 reports]

Headcount Mix

	FY99	% of Total	FY00	% of Total	Y-Y Growth
Development	0	#DIV/0!		#DIV/0!	
Operations	0	#DIV/0!		#DIV/0!	
Sales	0	#DIV/0!		#DIV/0!	
Marketing	0	#DIV/0!		#DIV/0!	
Support	0	#DIV/0!		#DIV/0!	
G&A	0	#DIV/0!		#DIV/0!	
Total Employees	0		0		#DIV/0!
	647 actuals		948		47%

These are rough estimates

Note
(1) Plus 40 interns and contractors
(2) Formerly run by Maria Cantwell, Carlous hired March 2000.
(3) MacArthur and Jordan promoted April 2000
(4) Pancotine, Hull, Binford hired April 2000.
(5) Position and appointment announced July 2000, may oversee Marketing position as well

Source: RW Stearns, RNWK press releases.

Denmark West (script)

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Why do I care about this slide BECAUSE

Speaker Notes...

ROB GLASER

Chairman & CEO, RealNetworks

Rob Glaser is founder and CEO of RealNetworks, Inc. (Nasdaq: RNWK), the recognized leader in media delivery on the Web. Since 1995. RealNetworks has pioneered streaming media delivery over the Internet through its standards-setting RealAudio, RealVideo, RealPlayer and RealSystem products. In 1999, he established RealNetworks' leadership in the digital distribution of music with the launch of RealJukebox and RealSystem MP. Mr. Glaser has a B.A. and an M.A. in Economics and a B.S. in Computer Science from Yale University. At Yale, he served as editorial-page editor of the Yale Daily News. Mr. Glaser serves on several non-profit boards and committees, including his appointment by President Clinton to the Advisory Committee on Public Interest Obligations of Digital Television Broadcasters. Prior to founding RealNetworks, Mr. Glaser worked for Microsoft from 1983 to 1993. He managed Microsoft Word, then moved to the company's networking group, before becoming Vice President of Multimedia and Consumer Systems. Mr. Glaser has long

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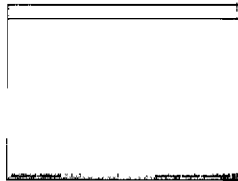
been intrigued with the nexus of media, computing, and communication. As television and radio transition from a broadcast to an online medium, he envisions turning the Internet into the next mass medium.

THOMAS F. FRANK

Chief Operating Officer

Mr. Frank joined RealNetworks in January 1999. From 1995 to 1998 he was the Sr. Vice President of Dick Clark Productions responsible for television program development and production. Prior to that, Mr. Frank was Vice President of Television Programming for The Leo Burnett Company responsible for client sponsored programming from 1992 to 1995. Mr. Frank also served as the Vice President of Development for Carolco Television from 1989 to 1991. He began his career in the general advertising division of the Procter & Gamble Company in 1985. Mr. Frank holds a BA in English Literature from the University of Cincinnati.

PHILLIP BARRETT

Senior Vice President, Media Technologies

Mr. Barrett joined RealNetworks in November 1994 as Vice President of Software Development 7. From March 1986 to October 1994, Mr. Barrett was a Development Group Manager at Microsoft, where he led development efforts for Windows 386, Windows 3.0 and Windows 3.1. Mr. Barrett holds an A.B. in Mathematics from Rutgers University and an M.S. in Computer Sciences from the University of Wisconsin, Madison.

PAUL BIALEK

Chief Financial Officer and Senior Vice President, Finance and Operations

Mr. Bialek joined RealNetworks in June of 1998 and is responsible for finance, facilities, MIS, customer service and technical support. Prior to joining RN, Mr. Bialek was CFO and Vice President of Finance and Operations with Metapath Software Corporation. From 1993 to 1997, he was CFO and Vice President of Finance and Administration for Edmark Corporation. Mr Bialek started his career at KPMG Peat Marwick, where he was employed in a variety of positions for 11 years. Mr Bialek has a degree in business administration from Seattle University and is a Certified Public Accountant.

RICHARD COHEN

Senior Vice President, Media Services

Cohen joined the company in October of 2000 and is responsible for overseeing media delivery service initiatives for RealNetworks, including the Real Broadcast Network (RBN). Prior to joining RN, Mr. Cohen spent more than six years at Metro-Goldwyn-Mayer, where he served as President of Home Entertainment and Consumer Products, with responsibility for the worldwide manufacture, marketing, sale and distribution of the company's film, television and interactive products for video and DVD markets. Cohen also oversaw the product licensing and merchandising of MGM properties, and most recently headed all of the studio's new media initiatives. Prior to his work at MGM, Cohen spent six years with the Walt Disney Company managing their home video division and overseeing the videocassette and laser disc release of all Disney, Touchstone, and Hollywood Pictures films worldwide. Cohen earned his MBA from University of California, Los Angeles, and his B.A. in English and Linguistics at Amherst College.

LEN JORDAN

Senior Vice President, Consumer Appliances

Mr. Jordan has served as Senior Vice President of RealNetworks since January 1997, and, as of April 2000, is the Senior Vice President of the Consumer Appliances group. From November 1993 to November 1996, Mr. Jordan was employed in a number of capacities at Creative Multimedia, Inc., a developer and publisher of CD-ROM/Internet products, most recently serving as President. From September 1989 to November 1993, Mr. Jordan was employed at Central Point Software, Inc., a utility software publisher. Mr. Jordan graduated magna cum laude from the Eccles School of Business at the University of Utah with B.S. degrees in Finance and Economics.

KELLY JO MACARTHUR

Senior Vice President, General Counsel, and Corporate Secretary

Ms. MacArthur joined RealNetworks in October 1996. She was previously Director of Legal and Business Affairs for Compton's NewMedia, Inc., a Tribune company, which was acquired by The Learning Company in 1996. Prior to that she was with the law firm of Sidley & Austin in Chicago. MacArthur has a B.A. summa cum laude from the University of Illinois at Champaign-Urbana and a J.D. from Harvard Law School.

PHIL MURPHY

Senior Vice President, International
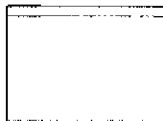
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As senior vice president, international, Mr. Murphy oversees all of RealNetworks' business outside of North America. With more than 22 years' international experience in the music industry, most recently as senior vice president, European region, for Sony Music Entertainment Group, he brings an extensive record of implementing new strategies for digital music and e-commerce. He also served as chairman of Sony Music Europe's new technology strategy board and was responsible for corporate strategy distribution and IT across Europe. Prior to his tenure at Sony, Phil spent 18 years at Warner Music International in a variety of senior positions, including vice president of Warner Music Asia Pacific. He holds a B.A. with honors in Economics from Cambridge University.

MARTIN PLAEHN

Senior Vice President, Media Systems

Mr. Plaehn joined RealNetworks in September 1999. From April 1996 to August 1999, Mr. Plaehn served as President of Viewpoint Digital and its Chairman and CEO until its acquisition by Computer Associates in October 1998. Prior to Viewpoint, Mr. Plaehn led product development for Alias|Wavefront, a Silicon Graphics Company. Mr. Plaehn joined Wavefront in 1990 and served as Executive Vice President of Business and Product Development and was a member of its Board of Directors. Mr. Plaehn started his career as software developer at General Atomic Company in 1978, ISSCO Graphics in 1980, and Template Graphics Software from 1982 to 1990. Mr. Plaehn has a B.A degree from the University of California San Diego (1978) and is a graduate of UCSD's Executive Program for Scientists and Engineers (1985).

BRIAN AIKEN

Vice President, Europe

Mr Aiken joined RealNetworks in June of 1998. Immediately prior to this he had held a similar position with Intuit, Inc. Previously Mr Aiken has held general management positions in Europe for Continuus Software, Inc. and Sun Microsystems, Inc. Mr. Aiken attended Trinity College, University of Oxford, where he took a B.A. degree with First Class Honours.

ALEX ALBEN

Vice President, Government Affairs

Mr. Alben represents the company on Internet policy issues and works within industry-wide efforts to develop and implement global standards, such as the Secure Digital Music Initiative. He has also served within RealNetworks as VP Music Group and VP Media Publishing for entertainment products. Prior to joining RealNetworks, Mr. Alben worked for Starwave Corporation from 1993-96, where, as V.P., Business Affairs, he helped launch many of Starwave's sports and entertainment sites. Previously, Mr. Alben was Associate General Counsel of Warner Bros. and Director of Business Affairs at Orion Pictures. He is a graduate of Stanford University and Stanford Law School.

MARK A. BRETL

Vice President, Media Systems Division

Mr. Bretl joined RealNetworks in March of 1998. From June of 1994 to March of 1998, Mr. Bretl was employed as Chief Operating Officer at Vivo Software, Inc., a developer of software based video conferencing systems and streaming media. From October 1983 to October 1991, Mr. Bretl was employed at Tecmar, Inc., a developer and manufacturer of PC and Macintosh computer peripherals, where he held a variety of positions, most recently as President & COO. Mr. Bretl graduated Magna Cum Laude from the University of Wisconsin, Platteville with a B.S. in Physics and Computer Science.

MARK HALL

Vice President, Media Publishing and Programming

Mr. Hall joined RealNetworks in October 1997, and oversees RealNetworks media publishing and programming efforts, which include the RealGuide, Channels, Stations, and GetMusic on the RealJukebox. From 1995 to 1997, Mr. Hall was an Executive Producer at Corbis, where he produced several award-winning CD-ROM titles and web sites. Mr. Hall began his career in interactive media in 1993 at Microsoft, working as a producer and editor on several of its first CD-ROM initiatives. Mr. Hall is a graduate of Carleton College and the University of Virginia School of Law.

TOM HULL

Vice President, North American Sales, Media Systems

Mr. Hull joins RealNetworks from Sequent Computer Systems where he was Director of Sales Operations, Americas. Hull started his career in the high-tech industry in 1979 at IBM, where he held various positions in sales, marketing and management. He honed his skills in roles of increasing responsibility at Amdahl and Sequent Computer Systems, where he focused on the telecommunications and aerospace industries. Hull was also a member of the 1980 U.S. Olympic Rowing Team and remains active in the sport. Hull holds a BA in Government from Dartmouth College.

JAMES HIGA

Vice President, Asia/ROW
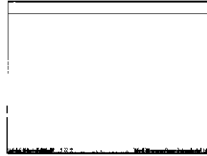
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Mr. Higa came to RealNetworks in September 1996. From January 1989 to August 1996, Mr. Higa was the Director for Asia/Pacific for NeXT Software, Inc. From 1986 to 1989, Mr. Higa served as Director of Product Marketing at Apple Japan, Inc. Mr. Higa holds a B.A. in Political Science from Stanford University.

BORIS JERKUNICA

Vice President

Mr. Jerkunica joined RealNetworks in January 2000, when the Company acquired Netzip, Inc., a leading developer and provider of Internet download management and utility software that Jerkunica co-founded, in 1992. As CEO at Netzip, Jerkunica was responsible for managing the day-to-day operations, strategic planning, financial matters and recruiting of sales and development staff. From 1987 to 1992, Jerkunica had been a software engineer at IBM, where he helped develop two major projects, including a computerized patient records hardware and software solution that allowed nurses to view a patient's medical information on a hand-held device at the patient's bedside. Jerkunica is a 1987 graduate of Emory University and holds bachelors and masters degrees in math and computer science.

ERIC LIU

Vice President, Corporate Communications

Mr. Liu joined RealNetworks in July 2000. Previously, he was Deputy Domestic Policy Advisor at the White House, shaping policy and providing political counsel for President Clinton on a range of issues. He also served during the first Clinton term as a foreign policy speechwriter for the President. In addition, Liu is a nationally recognized author and speaker. He has published acclaimed books on generational culture and racial identity, and has been an on-air commentator and online columnist for MSNBC, as well as a contributor to Slate magazine. He holds a B.A. in History summa cum laude from Yale College and a J.D. cum laude from Harvard Law School.

SHELLEY MORRISON

Vice President, Media and Distribution Sales

As Vice President of Media and Distribution Sales, Shelley is responsible for all advertising and marketing programs for RealNetworks' clients, as well as for the creation of traffic and e-commerce opportunities for all RealPartners. Ms. Morrison is one of the original pioneers in the development of interactive advertising and promotion. Prior to coming to RealNetworks, Shelley was the Vice President of Advertising for Starwave's Buena Vista Internet Group (formerly ESPN/ABCNews Internet Ventures), having joined them right after the launch of ESPN.com in 1995. In this capacity, she managed a sales team, and oversaw Starwave's Ad Operations, Client Services and Creative Departments. Ms. Morrison was formerly the Director of Marketing for the Seattle Supersonics in the NBA. She started her career in broadcasting, working for NBC and ABC in New York, London, and Africa.

DAVE RICHARDS

Vice President, Consumer Products

Mr. Richards oversees RealNetworks consumer products including RealPlayer and RealJukebox product lines. RealPlayer, the most popular Internet streaming media player, provides the best quality Internet audio/video consumer experience with support for the award-winning RealAudio & RealVideo as well as MP3. RealJukebox, the first complete digital music system, has quickly become the defacto standard for digital music since it was launched in Q2-99. Prior to RealNetworks, Mr. Richards held various senior management positions at Sybase & Symantec.

Real's Story

① Real's Virtuous Cycle
Based on traditional broadcast media business model proven over decades

[diagram with the following labels:]
- 155M Customers *Registered Unique Users*
- Players
- Broadcasters *Format Decision Makers* — Solutions
- Advertising *Buyers* — Inventory
- real
- Customers listens/ watches files
- Customers buy products & services
- Broadcasts programming
- Advertisers gets click throughs
- (metric)
- (metric)
- Broadcaster creates inventory
- Advertisers buy placement

Rich Media has very high 4X CPMs and click throughs

② Taxing the Cycle
1) Real gives server, hosting and sometimes even cash to top ICPs to adopt format and to promote player,
2) Users coming to download "free" player have to navigate up-sells to for fee player. Once installed, player takes over and prompts for more downloads, each with up-sells,
3) Real sells smaller ICPs solutions including servers, consulting, hosting, and promotion in guide,
4) More content, drives more downloads
5) Real sells ads based on traffic and takes 70% of ad revenue from radio station and other content it hosts;
6) Real sells users content subscriptions,
7) Cycle repeats with higher Real tax

*Here is where Glaser's "virtuous cycle" comes into play. The more people who have a RealPlayer on their desktop, the more content providers will opt to use Real's streaming-media technology. And ... the more likely people are to download a RealPlayer. "Content is the driving force" -FORTUNE

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Rich Lappenbusch:

Bill Spencer (script)

Top Points made on this slide (Points form understanding-leading to conclusions later)

1. Real extracts revenue from every link in the value chain.

2. The cycle builds a network effect and builds on its own success, increasing revenue.

3. In general, Real tries to charge as much as it can, but for top ICPs (e.g. Disney, Universal, CNN, etc..) Real will give away software, encoding, hosting, promotion in the player and even pay for content to be offered in its format in order to drive player downloads. Real pays for exclusivity of content in its format knowing well MS cannot readily respond.

4. Users clicking on the link "Free Real Player" have to carefully navigate through Real's download page promoting the "for fee" player to find the free version

5. Once installed, the player takes over media types and the desktop and does not easily loosen its grip unless the user uninstalls it. The player is a Trojan horse additional Real software – Real Jukebox, Real Download, etc.. Each coming with an up-sell.

6. Real then pitches second tier ICPs that it has a huge installed base and is more committed to digital media then MS – "We live or die by your success." Real will cut price or sell something else in order to win format adoption. Real targets Windows Media accounts with better deals. For example, Launch.com initially got its software for free, after Launch's number of concurrent streams exploded, Real tried to charge it $3M for its software. Launch resisted so Real compromised and sold it placement on Real Guide for something under $1M. At this point, Real could inflict a lot of damage to Launch's business if it charges Launch standard prices.

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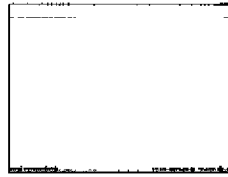
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7. When a user plays streams on these ICPs web sites, the player comes up with strong Real branding, a channel bar which lists other sites the user could click off to, e-commerce links (e.g. Amazon), and content (Take5). So Real monetizes playback experience even though in most cases the ICP pays for the stream and the server software. So Real competes with its partners for branding, promotion of content and e-commerce links, and now that Real is producing its own content with Take5 and content subscriptions.

8. Real charges hosting partners for software while requiring the ISP to charge no more for hosting and streaming in the Real format than in competing formats. And Real competes with these ISPs by offering ICPs RBN hosting solutions.

9. As Real installed base grows, it charges ICPs, advertisers, users, and ISPs more for software, promotion, hosting, and consulting.

Why do I care about this slide BECAUSE it summarizes Real's business model.

Speaker Notes...

Who is a Broadcaster?

- Music, Media & Entertainment Professionals
- Content Creators
- Consulting Professionals
- Internet Management, including CEO's & Executive Staff
- IS Management, including CIO's & CTO's
- MIS & Technical Staff
- Webmasters
- Software & Applications
- Marketing Management Professionals
- Networking Communications Professionals
- MIS & System Engineers

The are in the following Industries:

- Advertising & Design
- Music Production and Distribution
- Film & Video
- Fortune 1000 & Nasdaq 100
- Infrastructure
- Retail & Commerce
- Educational Organizations and Professionals
- Government Officials
- ISVs, IHVs, VARs, ISPs & OEMs

12

Financial Overview

	LTM September 30, 2000	Year Ended December 31, 1999	%Change
Number of Employees	966	647	49.6%
Revenues			
Software	139,794	90,627	54.3%
Service	45,623	26,516	72.1%
Advertising	41,345	14,099	193.2%
Total Revenues	226,762	131,242	72.8%
Revs/Employee ($000s)	253	203	14.8%
Operating Income	(86,537)	(3,040)	NM
Operating Income (ex-goodwill)	17,767	491	3518.5%
Net Income	(86,537)	8,926	NM
Net Income (ex-goodwill)	37,192	10,457	256.7%

	10/31/00	12/31/99	Growth YTD	12/31/98	% Change
Stock Price	20.810	60.156	-65.7%	9.969	570.8%
Shares Outstanding	158.3	166.8	-5.2%	130.2	28.0%
Enterprise Value	2,881.8	9,574.4	-70.4%	1,071.8	792.9%
Cash	259.5	344.8	4.3%	98.8	280.7%
Long Term Debt	0	0	0%	1.0	-100.0%
Market Capitalization	3,221.3	10,022.3	-67.9%	1,167.8	758.2%
Earnings/Share	0.10	0.04	375.0%	(0.15)	NM
Price/Earnings	NM	NM	NM	NM	NM

Real continues it's growth in revenue and as a company, despite declining market valuation

- Total revenue growth greater than 70%, Strongest growth in advertising revenue
- Goodwill and acquisition costs resulted in significant declines in Operating Income and Net Income
- YTD stock is down 80% but they have had four previous 50% corrections since their IPO and recovered each time

Price History: Real Networks since IPO (11/97 to 11/00)

Denmark West
Denmark West (script)

Top Points made on this slide (Points form understanding-leading to conclusions later)
1.
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Why do I care about this slide BECAUSE

Speaker Notes...

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Revenue Summary

① Product/Service

| Category | Quarter Ended | | | | TOTAL |
	Dec-00	Mar-00	Jun-00	Sep-00	Last 4 Qtr
Software					
Media Software	$14,810	$18,075	$20,152	$21,054	$74,091
Consumer Software	$12,575	$15,346	$17,110	$17,876	$62,907
Tools	$559	$682	$760	$795	$2,796
Services					
Professional Services	$7,621	$7,806	$8,451	$8,126	$31,004
Hosting (RBN)	$1,304	$3,212	$4,388	$5,370	$14,274
GoldPass	N/A	N/A	N/A	$397	$397
Advertising					
Advertising	$6,685	$8,407	$11,797	$13,506	$40,395
TOTAL REVENUE	$43,454	$53,528	$62,658	$67,124	$226,762

② Customer

| Category | Quarter Ended | | | | TOTAL |
	Dec-00	Mar-00	Jun-00	Sep-00	Last 4 Qtr
ICP	$18,947	$20,876	$25,062	$26,850	$88,735
Consumer	$15,209	$18,200	$20,676	$21,480	$75,565
NSP	$6,953	$9,100	$10,652	$11,411	$38,116
Enterprise	$3,476	$4,282	$5,012	$5,370	$18,140
CE	$435	$535	$627	$1,327	$2,924
Developer/Designer	$435	$535	$627	$671	$2,268
TOTAL REVENUE	$43,455	$53,528	$62,656		$226,748

③ Geography

| Category | Quarter Ended | | | | TOTAL |
	Dec-00	Mar-00	Jun-00	Sep-00	Last 4 Qtr
North America	$31,734	$38,565	$43,372	$48,391	$162,062
Europe	$5,235	$6,353	$8,200	$11,347	$31,135
Asia	$3,293	$4,852	$5,171	$5,439	$18,755
Rest of World	$1,074	$1,151		$1,947	$7,466
TOTAL REVENUE	$41,336	$50,911	$60,039	$67,124	$219,410

④ Key Points:

> Revenues currently dependent upon domestic consumer licensing and server sales

> Areas of focus for growth are advertising and services (segments), enterprise and network service providers (customers) and international (geography)

> Licensing model does not appear to scale well (nonlinear relationship with the growth of customer segment)

> Advertising revenue is tenuous given market downturn for technology

> ICP growth is slowing, but remains critical to the story

Sources: 10K, 10Q, Kaiser Associates, DMD/CorpDev estimates

International Sales

Selected Subsidiaries
FY00 Revenue Break Down (In thousands) To Q3

Subsidiary		Client Licensing	% of Total		Server Licensing	% of Total		[illegible]	% Of Total		Support/Consulting	% of Total		Advertising	% of Total		Total
France	$	1 170	35%	$	1 850	58%	$	-	0%	$	595	18%	$	195	6%	$	3 215
UK	$	2,340	35%	$	3 900	59%	$	-	0%	$	1 395	21%	$	390	6%	$	6 630
Germany	$	3 20	35%	$	5 200	59%	$		0%	$	1 560	18%	$	520	6%	$	8 640
Japan	$	3 680	45%	$	2 220	27%	$		0%	$	1 600	20%	$	670	8%	$	8 170
G China	$	750	8%	$	3 500	82%	$		0%	$	-	0%	$	-	0%	$	4 250
Australia	$	945	27%	$	250	36%	$	1 000	29%			0%	$	267	8%	$	3 462
Brazil	$	300	%	$	2 100	79%	$		0%	$	300	11%	$	250	9%	$	2 650
Sum		12,305		$	20 12		$	1,000		$	5,440		$	2,292		$	[illegible]

[illegible]

Player and Jukebox licensed to Fujitsu, NEC, Toshiba, Sharp, Sony and Panasonic

RNWKs International Headcount

Region	Sales	Marketing/Tools	[illegible]	[illegible]	[illegible]	[illegible]
EMEA	42	3	17	0	8	25
SPAR*	2	0	0	3	1	
LATAM*	8	5	5	2	4	1
ASIA*	2	1		0	2	5
JAPAN	10	14	10	0	3	7
Total	64	21	30	5	16	46

SPAR= AU, CA
LATAM= BR,ME
ASIA= Greater China, Singapore

Number of Servers Deployed FY00

Country	CY99	CY00	Growth	Avg No. Streams Per Server (1,000)
EMEA	420	483	13%	1000
SPAR*	250	350	29%	500
LATAM*	190	520	63%	650
ASIA*	200	300	33%	500
JAPAN	300	540	44%	500
Total	1360	2103	35%	

SPAR= AU CA
LATAM= BR,ME
ASIA= Greater China, Singapore

Key points

- **Server licenses dominate revenue**
- **Fastest growing revenue segments are infrastructure and media services**
- **Real Guide available in 8 languages**
- **Major growth in Japan and Latam**
- **Significant investment in Europe**
  - 25 news heads this year
- **Japan is an exception to otherwise opportunistic (inconsistent) strategies**
  - Strong tiered model
  - Aggressive solutions bundling w/SUN
  - OEM bundling agreements

Strategic Review – RealNetworks *Proprietary Microsoft Confidential - Internal Use Only* 15

Kurt Buecheler (to chop and move core to backup)

Top Points made on this slide (Points form understanding-leading to conclusions later)

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Why do I care about this slide BECAUSE

Speaker Notes...

Move stuff up to snapshot. .

Stock Performance

① Inherently volatile: 4 drops >50% since IPO *(11/97 to 12/00)*

50%+drops
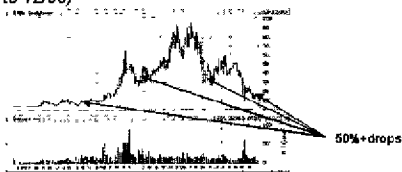
② Current correction maps to the market *(last 1 yr compared to Yahoo, eBay, Infospace)*
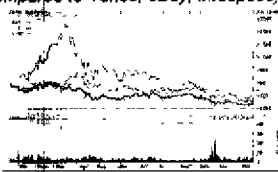
③ Many employees under water, but recruiting is still strong *(story resonates to the outside)*
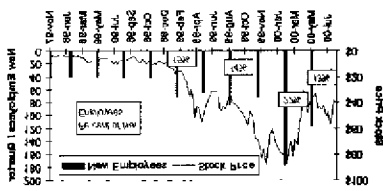
④ Despite stock collapse, strong analyst support

➤ As of 12/13, trading down 76% down YTD, but 23 of 27 analysts rate Real a buy or strong buy

➤ More analysts initiate *positive* coverage (6 new analysts since August, 5 buy or strong buy, all positive), a sign of strength or great marketing to Wall St.

➤ Analysts point to strong fundamentals (large usage numbers, content availability, profitability) as reasons to support the stock

Analyst	Firm	Initiated Coverage	Rating
Garrett Bekker	Josephthal & Co	August-00	Buy
David Kestenbaum	ING Barings	September-00	Buy
Phil Leigh	Raymond James	September-00	Strong Buy
John Graves	SG Cowen	September-00	Strong Buy
John Corcoran	CIBC World Markets	November-00	Buy
Myles Davis	Morgan Stanley	November-00	Outperform

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Market Conditions

① **Real Maintains Format Share Dominance Among ICPs Based on Accepted, but Questionable, Methodology**

- Most common measure of format adoption is crawling sites for instances of files
  - Includes old content that is no longer viewed
  - Can't penetrate protected sites, javascript, etc
  - 86% of all streaming web files based on crawls is in Real format, compared to 10% WM[1]
- Other measurements show a much tighter race
  - Platform use by top 100 ICPs: 77% Real, 59% WM
  - Nielsen reports 29% of home users viewed Real content, compared to 14% viewing WM in Nov[2]
  - Many ICPs report WM "stream share" at 50% or better
- Working with MediaMetrix/Nielsen on better metrics
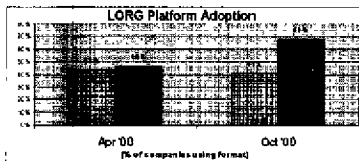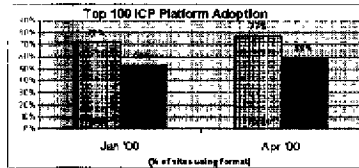
② **Real is Strong in DotComs, weak in LORGs**

- DotComs -- 10,000 dotcoms in US, 20% stream (>25 files on site) but 16% went under this year[7]
  - 7 of 10 DotComs use Real as primary platform[6]
- LORGs -- Adoption of streaming among LORGs grew significantly from 10/99 to 9/00 -- now 20%
  - Real losing share rapidly in this segment, down 2 points since April while MS is up 22 points.[8]

Source: [1] NetCraft, [2] Nielsen Netratings, [3] The Standard, [4] MS Vertical Content Research, [5] NetCraft Validation Study, [6] Information Week, [7] MS LORG DM Tracker

Gary Schare

Gary Schare (script)

Key points:
- Real has dominant share of Internet content, but the accepted methodology is questionable
- Much tighter race based on other measurements, such as platform adoption (number of ICPs using either format, or both) where Real leads 77% to 59%, and usage where Real's lead is only 30% to 13%
- Real usage among companies strong among all dot coms (7 in 10 vs WM at 3 in 10) but weak in LORGs (4 in 10, vs WM at 7 in 10)

Backup notes

- Real aggressively pursuing share of adult content -- $1 4B Internet industry -- with 60,000 adult sites and 21M visitors per month[4]
- Real increasing share of new streaming content on top adult sites, majority are proprietary/java, almost no WM [5]

To review, we have tried two different approaches to validating the Netcraft data:

- In April 00, we conducted a phone survey with 140 webmasters to obtain self-reported data on the number and format of streaming files on top sites. As expected, webmasters reported a much larger absolute number of files than the automated trawl found. We also found some shift in reported share of total streaming files for these sites -- 71% Real and 15% WM in the survey data, compared to 85% Real and 9% WM in the automated trawl. The Netcraft results for tier 1 sites tended to be more accurate than some of the tier 2 sites, but overall, we were seeing a very large advantage in format share for Real.

- In Oct 00, we shifted the way we look at Netcraft data from overall format share to a site by site "winning/fighting/losing" analysis of the top 100 MM domains. We examined the results of Netcraft's automated trawl to identify specific sites where we felt their data were questionable. We conducted a manual trawl of 50 of these "problem sites", and used this data to supplement/correct sites like CNN where we knew the automated trawl results were low. But in general, while the manual approach helped us improve the file count for some sites, it didn't significantly change our percentages

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The Streaming Industry Value Chain
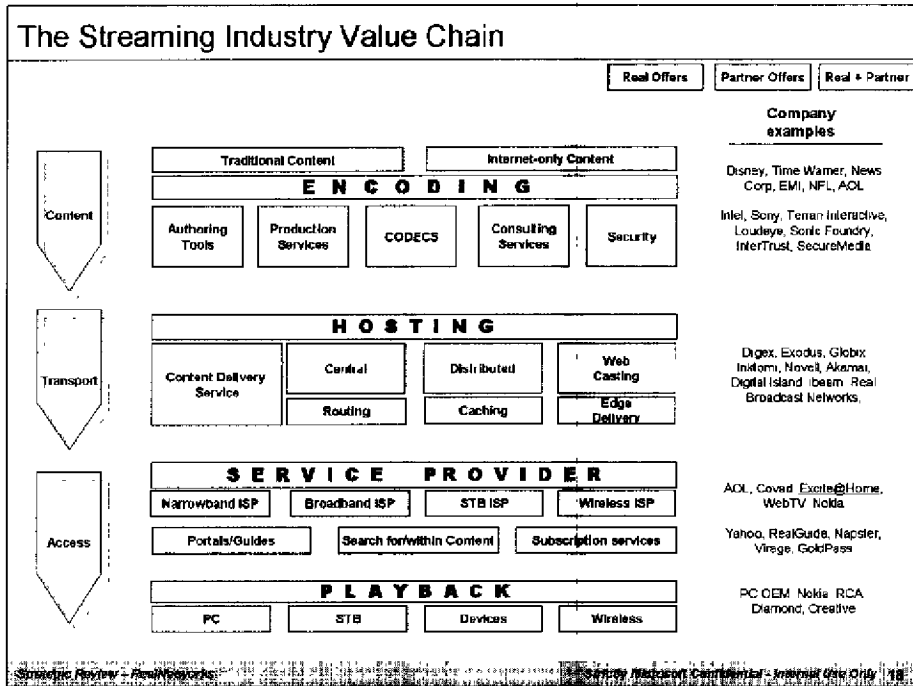
Denmark West (gary cleanup)

Denmark West (script)

Top Points made on this slide (Points form understanding-leading to conclusions later)

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Why do I care about this slide BECAUSE

Speaker Notes...

Key points here must be:

Describe the slide ..all the pieces. Content, transport, access...

They are filling all the niches...it's like they had this slide and looked for and filled the holes

Partnering is key to this picture...everything not blue is coming from someone else

Right now, everything relies on the Sony/Intel partnerships...but they're working to make that less important.

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David Caulton

Top Points made on this slide (Points form understanding-leading to conclusions later)

1. Real screws with our products, turning internet and windows tasks into advertising vehicles.

2. Real makes Windows an unneeded option

3. Real is pursuing .net and using windows to make it happen

4. Real enables consumer and business content creation

5. Real gets onto desktops via online services, OEMs, and for the sake of content.

Why do I care about this slide BECAUSE you need to understand how the Real user experience works.

1. **Consumer Broadband Experience - AOL Plus (SeanAlex)**
   This demonstration will show how aggressive RealNetworks is in taking over the client experience- from spamming the desktop to re-taking Windows file formats, to turning simple activities such as downloading *any* file from your browser and advertising opportunity. The general consumer experience will be shown with Mars in the background, AOL Plus as the provider- we're just 1 of 24M AOL subscribers who will get this player over next few months. We will wrap by showing that through distribution, technology, and content partnerships with AOL Plus and Yahoo, Real is delivering compelling consumer services that compete with MSN, Windows/IE, and Messenger.

19
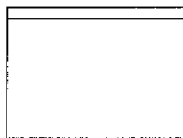
Continued from previous slide...

- **OEM OOBE Scenario**
  - Spamming the OS: Grabbing the desktop, MIME types, browser
  - RealPlayer Format support- list of all formats supported, format autograb
- **Standard Consumer Install Scenario (builds on above)**
  - RealJukebox - Taking over Windows file types
  - RealDownload- Simple Windows Tasks become AdWare
  - Performance- taking up to 32MB of active Windows memory- all the time
- **AOL Plus and Real: Impeding the Mars & Windows value proposition**
  - Quickly show Mars experience w/ Windows Media
  - Compare to AOL Plus - Doesn't conform to UI guidelines
  - Content in Real format pops up RealPlayer. Eye candy, ads distract from value of Mars UI.
  - Net2Phone via RealPlayer end runs MSN Messenger/Mars
  - Other plays- RealProducer ---> Yahoo competing with MovieMaker (MSN not playing) **(Dcaulton)**

2. Subscription Services - Competing with .NET (SeanAlex)
This demonstration will clearly show how Real is working to deliver .NET level services both free and for-fee in areas that compete with DMD as well as Windows . They have quickly adopted a subscription upgrade model, moving from $19.99 per client to $119.00/year per client and are delivering compelling content that extends beyond the G-rated material available on other sites. They're edgy and understand the NetGen community- between PG-13+ A/V content, a play to publish 3D games, distributing violent Quake-like first-person shooters, to a merging of the media player and gaming genres. Real is interested in being a fully rounded Digital Entertainment Publisher that competes with MSN, MSN Music, Microsoft Games, WindowsMedia.com, and more.

- Delivering on .NET w/ entertainment, automatic music delivery
- **Free Services**
  - Take 5 Content Service - playing content & being spammed
  - Push Music Download Service - partnered with MP3.com to automatically deliver
 - News Alert Popups
- **Fee Service- Real GoldPass**
  - Content play, Gaming Play, consumer entertainment play
  - $149 of Top 1% of market paying player market
  - Areas where they're kicking our ass with NetGen'ers via content partners
    - Content - Show compelling content, PG-13, this isn't Disney, sex sells
    - Add Ons - Visualizations, Plug-Ins
    - Gaming - Not just a DMD threat- Real is a game publisher, leveraging gaming in player/jukebox as well as standalone.
  - Glaser plans to move into music subscriptions ala Napster (quote)

3. Content/DRM Play: BlueNote LiquidAudio - partnering with Universal on content/content delivery (Dworkman)

The objective here is to show that Real's viral circle extends well into the area of content creation and distribution, investing in and exploring many different business models and partners to see what sticks. Prime examples to be demonstrated are Real's BlueNote partnership with Magex and Universal Music, and LiquidAudio as two completely different systems from a technological perspective to business models. Both leverage RealPlayer as the core component.

- connected, etc. do this from the mac using Java

20
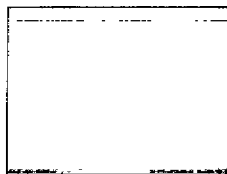
Continued from previous slide...

- Real is owning value chain, business partners as well as platform provider to content providers such as Universal
- Rich format support inside RealPlayer
- Demonstrate user experience
- **BlueNote Demonstration**
  - Purchasing content, using your Magex digital wallet
- **LiquidAudio Demonstration**
  - Rich consumer experience, using AAC as well as our format, RJB plays both

4. Content Creation - a Windowless environment (Dcaulton)

This will be perhaps the most powerful of the demos- showing definitively that the entire viral chain can exist without Microsoft. Companies can partner with Real in a Windowless environment, essentially short-circuiting our value chain. We will note that bundling of their technologies is taking place on multiple levels from encoders and servers on Linux, HP/UX and other platforms, to the player in Linux and BeOS. Creation and Distribution of multiple formats of content can be done and playback supports a wide swath including fringe players such as Be. In essence, Real is interested in partnering (often exclusively) with every platform provider except for Microsoft.

- Show boxes: Linux server, Mac encoder, mac, beos Linux players
- Start encoding from the mac, note no admin needed to get a live event going
- Access really kicking on-demand content from the server box (need to show SMIL integration)
- Access a QuickTime video off of the server box
- Demo remote admining the server box to find out how many people are

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Products

	Product	Killer Features	OS	Price	Value to RN	Threat
Client	RealPlayer RealJukebox RealDownload	Must use to access 85% of content on the web	Mac, windows, Solaris, Linux (player)	$29 + $29	Revenue Client Reach	▸ Key asset to nonwindows media world ▸ Enabler of nonwindows client devices
Server	RealServer	▸ Use to access 155 million users ▸ Run on any OS you want	Mac, Windows, Solaris, HP-UX, AIX, Linux, IRIX etc	400 stream = $17,500	Revenue	▸ key enabler of non Windows servers. ▸ Key to RN business model today
	Server Extensions	Advertising, Authentication, splitting, cache	All server OS	e.g., 400 stream, auth = $15k	Revenue	
Content production	Real Producer	▸ Superior Video Quality ▸ Great End-to-end tools	Mac, Windows, Linux	$480 (Pro)		▸ Creates the media for everything above
	Real Presenter	▸ Easy to convert PowerPoint into video and audio presentations ▸ Cool SMIL content	Windows	$57	Format Dominance Keeps Real cool	▸ Better Media-enabled presentations than PowerPoint ▸ RN owns the Premiere SMIL Editing solution
	Real Slideshow	▸ The top SMIL editor ▸ Adds interactivity to media	Windows	$57		

- Real owns most key components — w/ partners, offer unmatched end-to-end experience
- Everything is sold on "first time's free" basis. Then Server products are extremely expensive
- All products are "good enough" — e.g., server scalability isn't stellar, but handles their 2000 stream SKU
- Pushing alternative platforms (Linux) very hard **Nonwindows OS's solve a lot of problems for them.**
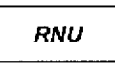
- Audience Reach and content dominance are why customers pay these prices

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Server Pricing

Example RealNetworks Server Price/Stream
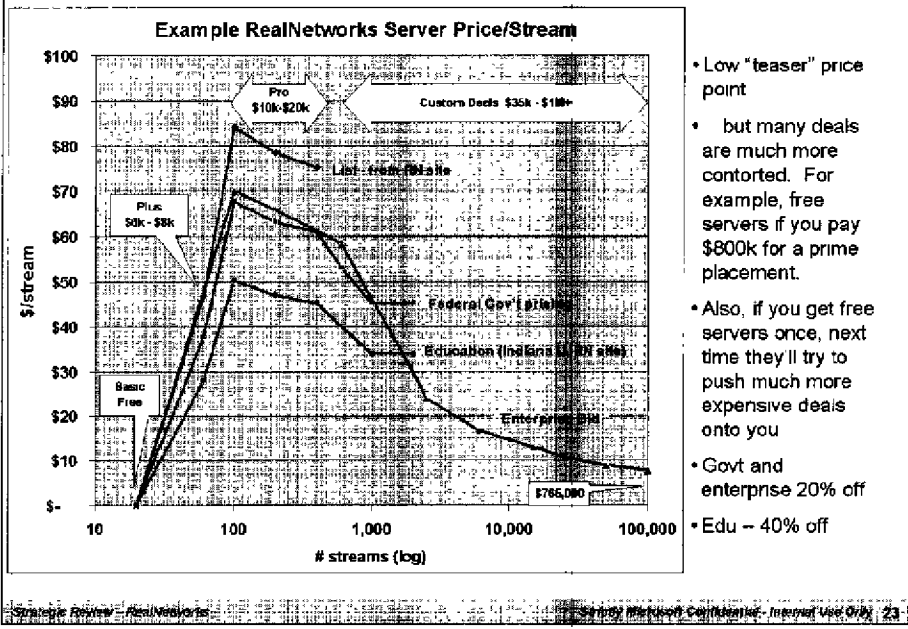
- Low "teaser" price point

- but many deals are much more contorted. For example, free servers if you pay $800k for a prime placement.

- Also, if you get free servers once, next time they'll try to push much more expensive deals onto you

- Govt and enterprise 20% off

- Edu – 40% off

Services

| Service	Audience	The Pitch	Pricing
(logo)	Consumers	exclusive content, software, contests Trying to monetize their users directly	10/mo
(logo) BRS	Consumers	Use our easy media portal	Free
(logo)	Broadcasters	Get to those consumers. Used as carrot for broadcasters –exclusive content deals	variable
RBN (logo)	Broadcasters	▶ Let RN take care of messy web casting chores. Used as a low-cost carrot for Broadcasters. ▶ Uses linux servers	QD hosting for 1 mo, or 4 live events - $12,000
RNU	Admins, Content Developers	Send your people to learn our technology.. and be evangelized	$1000-$1500 per class
RealPartner (logo)	Developers, Content Devs, ISPs	Support, software, training, and co-marketing benefits 4 tiers...top two are very exclusive and customized	level 1 – free Level 2 - $495 Level 3, 4 – ??
Product support	All	12 months of upgrades, PSS	40% of product price
RealNetworks professional services	Broadcasters, Enterprise	Professional consulting makes Real tools do what you need. Integral part of many solutions	Custom
Placements in products	Broadcasters	Get a prime location on 155m desktops Realplayer, Realdownload, and RealJukebox	??
Ads in content	Advertisers	Advertise on the #1 media portal and hit your target. In their Web pages, streams.	??

Services perform key functions:

- Revenue generation – today, and increasingly crucial in the future.

- Evangelism – RNU, partner program

- "gap filling" for custom solutions – and all solutions are custom today

- Carrot for potential customers – "we'll Broadcast/advertise/ place your content for free if you use our platform "

Customer Segments At A Glance

Segment	Details	Analysis
Enterprise	• Represents 7% of current revenue • Buy servers, hosting, and consulting services • Customers often unwilling to pay for Real solutions • Potential growth opportunity, but Real continually losing share	• Real sells well-targeted and messaged solutions, not products
Broadcaster (ICP)	• Represents 24% of current revenue • Buy servers and hosting services • Almost none making money from streaming • Many Internet-only ICPs failing in dot-com shakeout • Limited growth opportunity Real de-emphasizing	• Consulting, RBN, and partners are used to knit the products into solutions
Advertiser	• Represents 18% of current revenue • Buy inventory on Real com, RealPlayer, and other properties • Escalating efforts despite global online ad slowdown	• Impact on consumer/viewer is a consistent, immersive experience
ISP/Hoster (CDN)	• Represents 15% of current revenue • Buy servers and consulting services • Almost none making money from streaming • Aggressively pursuing as potential growth opportunity	
Consumer	• Represents 33% of current revenue • Buy players and jukeboxes and subscriptions • Bulk of revenue from Player Plus • Success here drives all other segments • Player download/sales viewed as saturated by analyst community, driving move to subscriptions	
E-commerce Sites	• Insignificant current revenue • Buy servers, hosting, and consulting services • Potential for growth as dot-coms look to streaming to drive purchases	

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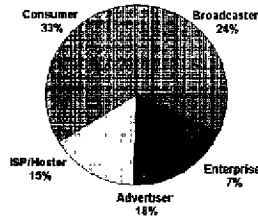
Gary Schare

Dave Fester (script)

Key Points:

• Drill into Broadcasters, ISP/Hosters, Enterprise and Consumers

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Enterprise Segment

① Revenue Summary

|	Q4 1999	Q1 2000	Q2 2000	Q3 2000	Total
Commerce	$2,628	$3,354	$3,960	$4,279	$14,221
Education	$174	$214	$301	$322	$1,011
Government	$174	$214	$251	$269	$908
Total	$2,976	$3,782	$4,512	$4,870	$16,140
Q/Q Growth		27%	19%	8%	
% of Total Rev					7%

Source: Kagan Associates Estimates

Analysis
- Dedicated enterprise sales force engages without Microsoft showing up
  - But we're showing up much more often
- Continuing problems convincing enterprises to pay for solutions
  - Often provide free software/services to win business

- Revenue growth slowing due to competitive and cost pressure

② Key Market Data
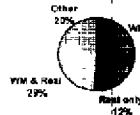
- Total usage share:
  Real 41% vs WM 65% – Oct'00
- Real's usage share down from Real 43% vs WM 46% – Apr'00
- Neither vendor entrenched as most deployments are pilots or design wins

Source: Digital Media Business Tracks 10/00
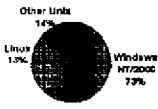
- Real follows OS, doesn't drive
- Analysts perceive this chart to be 55% Windows, 45% Unix
- Unix threat is serious, but future

Source: Digital Media Business Tracks 10/00

③ Customer Wins/Losses

Real Wins
- GE, Fedex, UPS, Goldman Sachs, 3Com, Boeing, HP, Intel, Lockheed Novell, Pac Bell, TI, U of Penn, U of Mich, Fed Gov't (GSA, DOD, DOC, TVA)

Real Losses
- Williams, CalTrans, AT&T, Bear Stearns, Int'l Paper CSFB, Canadian Imperial Bank

Fighting
- Applied Materials, Ford P&G, JP Morgan, Nike, Schwab, BofA, First Union

Analysis
- When MS engages Real usually loses account
- Real often loses on price (Williams, NIST)
- Real occasionally wins on x-platform clients and servers
- None of Real's wins are truly entrenched, we can win most/all back

④ SWOT

Strengths	Opportunities
- Enterprise sales & consulting force - Complete solutions - X-platform server and client - Price flexibility	- Leverage Unix preference on the server - Migrate enterprise browser to RealNetscape - Generate revenue to fund consumer content efforts

Weaknesses	Threats
- Desktop audio interference - Server scalability - Enterprise relationships - Platform/Solutions too expensive	- MS out-mans Real in field - MS harnesses MCSPs - ASPs move toward MS due to channel conflict - MS provides better web/media server integration

Real is very exposed in the Enterprise
- Channel conflict pushing ASPs to MS
- Sales force not making numbers
- Customers unwilling to write huge checks to Real
- MS shops choosing WM because it's part of the OS

Gary Schare

SM Starter Kit

CAPTURE IT <u>Osprey 100 video-capture card</u>, Labtec stereo headset/boom microphone

CREATE IT <u>Terran's Cleaner 5: RealSystem Edition</u>—Limited-time addition. Software for batch-encoding and advanced filtering capabilities
<u>RealProducer Plus</u>—Content-encoding software
BROADCAST IT <u>RealServer Plus</u>—Supports 60 simultanious (sic) viewers
<u>Upgrades and Support</u>—A full year for each of your RealNetworks products (worth nearly $1,000). This entitles you to updates as we continue to improve these products and also means that you'll be able to reach a RealNetworks technical support engineer by telephone should you have a problem or question.

ICP Broadcaster and Consumer Ecosystem

ICP
40 USA based sales reps
$90M (40% of revenue)
Currently at 7% growth rate
Free starter, then up sell
Opportunistic structures
Partners ~ 25% of ICP rev

Consumer
10 sales people
$63M (33% of total rev)
Total growth currently at 4%
Premium apps and services
- PlayerPlus
- JukeboxPlus
- GoldPass
Pitch player superiority
- A/V quality
- Feature integration
- Flash support

Advertising
15 sales people
18% of rev

Services
- 17% of revenue
- RBN is $14M (40 ICP reps)
- NSP is $38M (35 USA reps)
- Resellers ≈ 25% of NSP rev
- Focusing on new partners

CDN Industry quotes
- CDN partnership success caused RBN to languish
- Svr renewal price up to 8Xs
- Server growth appears as fewer sales and high prices
- CDNs oversold vs content that showed up, renewals will be hard

Adv/Promo data points (past, not sustainable)

Advertising	CPMs of $10-50
Promotion	Top was $100K / mo
Slotting fee	Top was $10M

Kurt Buecheler

Top Points made on this slide (Points form understanding-leading to conclusions later)

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4.
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Why do I care about this slide BECAUSE

Speaker Notes...

Global Sales Snapshot

RealNetworks' Sales Organization

Segment Sales (110)	International Sales (50)	Direct Sales (50)	Indirect Sales (10)

- Located in home offices throughout the world
- Part of the RealPartner program

Media/Content Creators (40)	Infrastructure Providers (35)	Enterprise (25)	eCommerce (10)	Regional (27)	Advertising (13)	eCommerce Consumer (5)

Basic data points

- 230 Sales people worldwide (7:1 vs DMD)
- SE ratio 1:2 or 1:3 to sales (similar to DMD)
- Focused sales investment
  - International (6 new subs, +32% heads)
  - Partners (CDN capacity, ISVs)
  - Segments (OEM, Wireless, Embedded, Ent)
  - Revenue (Ad sales, Services, Enterprise)
- Rob "easing off" so people don't leave

How they compete – in general

  - Opportunistic on pricing, structure, terms
  - Leverage their strength, deals are one-sided
  - Anything but MSFT recommended
  - Force ASPs to Real/WM parity pricing

How they compete - Enterprise

  - Direct engagement to close deals
  - Primary media system for Sun, IBM, Linux HP
  - Follow the OS – path of least resistance

How they compete – ICP/Consumer

  - Buy tier 1 ICP content exclusives – drives portal
  - Offer tier 2 ICP reach and "one-stop-shop"
  - 4 ICP rev sources: SW, SVS, ads, promo
  - 2 cons rev sources: prem apps, subscriptions

Sales SWOT

Strengths	Opportunities
▸ Partnerships with Sun (etc) offers leverage in sales resources	▸ Re-build enterprise growth via Sun
▸ Leadership in player and site reach = business on their terms	▸ Momentum in emerging and int'l markets with limited MS competition
▸ One-Stop ICP services makes it easy to get involved	▸ Leverages emerging market momentum back to harder markets
▸ Able to charge premium rate for services over other SPs	▸ Co-opts MCSP channel to divert W2K momentum
▸ Singular focus on Digital Media	▸ Escalate PC and device OEM deals
	▸ Continue to be "less scary than MS"

Weaknesses	Threats
▸ Channel loyalty low (competition)	▸ Infrastructure partner attack RBN as competitior = eroded margins
▸ 230 sales reps for global mission	▸ ICPs reject Real as competitior
▸ Many partners, many are small	▸ MS sales engages; win on cost/quality
▸ Often over-promise and under deliver (poor execution)	▸ Arrogance/poor execution continue
▸ Product Issues	▸ Lose internationally, a non-global player is a non-player
» No DRM	
» WMT is better, cheaper ops	

Real former employee opinions

- MSFT successfully neutralized all Real infrastructure deals
- 85% share claims are meaningless/not true. But MS failed to refute
- Opportunity – Compare Real vs WMT ROI (Real loses)

Kurt Buecheler

1. By the end of this slide, you will understand that we are greatly out-gunned in sales resources. More than their 230 sales people (or 7:1 ratio to DMD), Real has established partnerships with Doubleclick, Sun, HP, IBM, Red Hat and other that extends their coverage to a much larger total sales force. If a Sun reps only identifies an opportunity
2. They structure their sale teams
3.
4.
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Why do I care about this slide BECAUSE

Speaker Notes...

Partnerships, Acquisitions & Investments

① Partner strategy

Partner for "best of breed" component technology
- Intel codecs and RealPresenter (ppt)
- Sony codecs
- Intertrust DRM

Partner to coopt customer-facing technologies
- Apple (serves as origin server for Quicktime)
- Macromedia (flash integration into player)
- Microsoft (licensed MS Audio for RealPlayer)

Partner for ABM distribution
- AOL/Netscape
- SUN/IBM/HP (Unix)
- Red Hat (Linux)

Partner for non-PC device distribution
- Nokia (cell phones)
- Panasonic (portable players)

Partner for network distribution
- PanAmSat
- MCI
- Enron

Partner for major content
- Record labels - Blue matter

② Investment strategy

New initiative – first investment in December 1999
- Will leverage Accel for co-investment opportunities
- Typically do not need to invest cash because of distribution value and market position

Focus on core technology and infrastructure
- Areas critical to success and competitive advantage
- Value to tighter integration without assuming ownership

Recent Investments:

Announce Date	Company Name	Business Description	Real Initiative	Investment Rationale	Investment Size	Est. Ownership
12/17/1999 Worldplay		Developer of computer generated video and RealPlayer applications/enhanced audiographics.com	RealPlayer	Technology Integrator	$10 million	~30%
1/17/2000 FastForward Networks		Routing and management tools for webcasts	RealServer DRM Technology Integrator		$10 million	~6%

④ Acquisition strategy

Acquire technology to fill strategic holes or enable core services

Use stock as primary acquisition vehicle

Recent acquisitions:

Announce Date	Company Name	Business Description	Real Initiative	Value (VM)
March 98 Vivo Software		Streaming media creation tools	RealServer	$20 million
August 98 Gmx Interactive		Developer of MP3 software	RealPlayer	$75 million
January 00 Netzip		Internet download management and utility software	RealPlayer	$100 million
July 00 Multimedium		Radio systems integrator	RBN	$5.5 million

Partnerships and Alliances

① Key Partners

• AOL	Real only in AOL6, Spinner (AOL in RealPlayer) Lots of Real content, AOL promo in RealPlayer
• Sun	Sales Streaming origin server, Unix Real Player (?)
• Unix	Bundles with IBM, HP and RedHat
• Intel	Codec development and RealPresenter (co-dev)
• Sony	Codecs ranging from low-bit audio to high bit video
• Nokia	Wireless streaming
• Apple	Streaming Quicktime from RealServer
• Macromedia	Flash integration

② Featured deals

• AOL	To AOL $20M, unlimited servers, free custom player with no RealPlayer branding, 100% ad rev To Real dist, marketing upgrade revenue(?)
• Sony	To Sony Atrac3 above 64kbit, 328Kbit source std To Real RA <64kbit, embedded devices, content

MusicNet project (Code named "Havana")
Real as a Audio/Video service provider
Target is serving Internet entertainment sites
Competes with Alliance, Amplified, Rioport

⑤ Real partner quotes
"I perceive them to be forceful, sneaky, and backhanded"
"It's a tightly run org Run militarily"
"GIGANTIC push to obtain (pay) for content in Gold Pass

③ Partnership SWOT

Strengths	Opportunities
• Nokia deal give Real 30% of market and thought leadership	• Leverage Sun, IBM, HP relationships with telecos
• Nokia proposed Real as WAP standard, adopted for EPOCH	• Standards bodies activity, including 3GG, Bluetooth, W3C (for SMIL)
• Early momentum in market share and advertising	• Get Real embedded in Nokia s infrastructure products
• Large base of ICP content is an asset and ties	• With ASPz, build digital media solutions with bundled/free capability
• Jukebox ships widely with MP3 devices (incl cell phones)	• Acquire PacketVideo or solidStreaming

Weaknesses	Threats
• Real competes with CDNs and ASPs with RBN	• Topology strength varies by locale
• Real competes with ICPs with GoldPass	• Uneven effort to train, support and engage SP/ISV
• No DRM solution built-in	• ASPs see MSFT as better partner/ROI
• No embedded version of REAL player yet	• Existing Microsoft relationships with major telcos – Vodafone, Telefonica, BT, T-Mobil, NTT DoCoMo etc
• Acquisitions harder (low stock)	• "Standards" e g MPEG4
• REAL codecs are proprietary	• Cell will support only one player

④ Int'l Partners

	CDN/Hosting	Reselling	SPs	ASPs	ISP/Telco	DRM SPs	Encoding	Adnet	OEM
EMEA	4	12	20	16	12	0	6	8	0
SPAR*	3	30	57	23	9	0	5	5	0
LATAM*	1	1	1	1	1	0	2	2	0
ASIA*	2	5	6	2	2	0	0	0	0
JAPAN	6	10	20	5	15	0	7	3	7
Total	15	58	104	46	38	0	19	18	7

SPAR=AU, CA   LATAM=BR, ME   ASIA=Greater China, Singapore
Source   DMD BDM general tracking and interviews with industry partners

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Top Points made on this slide (Points form understanding-leading to conclusions later)

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Why do I care about this slide BECAUSE

Speaker Notes...

Marketing Overview

① Marketing Organization

Marketing HC & Budget	Real	Microsoft
Media Systems	40	22
Consumer Products (PC)	35	5
International	30	1
Professional Services	10	0
Consumer Appliances (Non-PC)	5	1
E-Commerce	5	1
Total Marketing Headcount	125	30
Total Marketing Budget	$36M	$10.5M

② PR Summary

- News Moved from "darling" to neutral coverage
  - Business press, tech trade coverage predominates
  - Little pickup by consumer, mus c/entertainment pubs
- Reviews Fewer reviews (and fewer wins) than WM in CY00
  - RealPlayer 6 Win, 3 Tie, 5 Loss
  - WM Player 15 Win, 6 Tie, 4 Loss
  - RealSystem 3 Win, 5 Tie, 3 Loss
  - WM Tech 8 Win, 4 Tie, 2 Loss
- Analysts still consider Real the pioneer/leader in streaming media space though doubts are surfacing
  - Doubts include worth of subscription service, s/w business, overall competitiveness over longer term

③ Brand/Advertising

- Brand identity is strong and well-implemented
- Unaided low, but overall awareness growing rapidly
  - Unaided only 10% (WM at 5%)
  - Total up from 30 to 41% since 4/00[1] (WM at 54%)
- Do not dominate the market in consumers' minds
  - 11% of users site Real as brand leader (WM 10%)
- Print ads for business/industry, online for consumers
  - Spent $2 1M on print[2], $2 5M online[3] last year

Source [1]IMD Consumer Tracker 4/00 [2]Ad Relevance [3]CMR Intermedia

④ Events/Keynotes

- Budget of $10M (vs. MS-DMD $2 1M)
- Participate in approx 65 shows per year
  - Largest presence at NAB, Int World, SM East/West (Keynote), Comdex, Dig Hollywood (Keynote)
- Annual Real Conference (3 days) - $3 2M budget
  - $500K in sponsorships, $700K exhibit fee recovery (~60 exhibitors), $1M reg recovery $1M own costs
  - Sponsors included Sun, HP, Intel, Oracle Lotus

⑤ RealPartner Programs

- 4 Tier program (all start at 1 with $495 fee)
  - Levels 1 & 2 web enrolment
  - Levels 3 & 4 (top) managed by 10 Reps
- 485+ partners in program, vs 450 for MS
- Benefits
  - Account managers for top partners (10 for level 3/4)
 - Web resources, training, support real-conference

Gary Schare

Dave Fester (script)

Key Points:

•Substantial marketing headcount and budget compared to MS, but they lack some of the infrastructure that we can leverage

•PR tide has turned against them somewhat; MS product improvements, combined with business sustainability doubts beginning to show in coverage

•Very usable brand, but awareness still quite low

•Huge event spend and very successful yearly conference; MS can leverage corp presence and events (teched), but Real looks "dedicated" to digital media

•Partners at this point have little loyalty to either of us from a program stance. While they are providing status-quo with partners, we have the opportunity and experience to win with a long term vision for partners by putting the necessary resources and focus on partners as our extended selling force. The benefit of doing this is winning partner loyalty, trust and hearts. By not doing it, Real can turn on a dime, focus on partners and kick our tail in this space.

•The partner space is one area where with a little more focus and resouces, we could claim victory.

Advertising/Brand Strategy

•Brand identity is strong

   •Logo clear, clean, readily identifiable
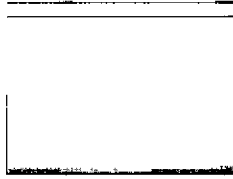
Continued from previous slilde...

- Advertising consistently reinforces the same look and feel, both in online and print
- However, Real does not dominate the market in consumers' minds
    - Only 10% of web users characterized Real as a brand leader (vs. 11% for WM, 23% for MP3)*
    - Ranked #2 in selection of content (behind MP3), #4 in video quality (behind WM, QT, MP3), and #4 in sound quality (behind MP3, WinAmp, WM)*
    - Only 45% of users are highly satisfied with Real Player (vs. 33% for WMP, 55% for QT)*
- They use print advertising to reach business and industry, and online advertising to reach their end users
    - Print advertising
        - Spent $2.1MM last year, primarily targeted to business (including Business 2.0, Wall Street Journal, Industry Standard, Wired, and Red Herring) and industry (Billboard and Information Week)**
    - Online advertising
        - Spent $2.5MM last year, primarily on music, news, sports, and portal sites***

Campaign Analysis: Real 8 Launch

- Launched Real Entertainment Center on May 22, 2000. Consisted of Real Player 8, Real Jukebox 2 and Real Download 4.
- Ran full-page print ad on launch day in the Wall Street Journal, New York Times, and other papers.
- Messaging focused on: only "all-in-one" integrated suite, best quality audio and video playback and overall market leadership.
- Claimed 135M registered Players & 35M Jukeboxes in 2 months
- Claim to achieve 200,000 new Player users every day

Political & Policy Strategy

Strengths	Opportunities
Credible Senate champion Potential "victim" image Welcome in anti-MS alliances (SIIA) "Progressive" image to media Politically active execs Positive philanthropic image	Convince fed, state, and intl authorities to prohibit "tying" of DMD into OS Weaken MS by supporting anti-MS coalition efforts Encourage litigation against MS, regulatory restraint (or protection of Real) Avoid merger and regulatory scrutiny by portraying Real as threatened by MS (ala Netscape and AOL)
Weaknesses	**Threats**
No consistent DC or state cap presence (until May 01) Partisan Image problem re privacy "Loose Cannon" execs	Privacy complaints threaten underdog image Subject to political and regulatory problems as content provider

Source: Gary Sullivan Alter Garcia, LCA Broadnews (Washington AP)

Rich Lappenbusch

Top Points made on this slide (Points form understanding-leading to conclusions later)

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Why do I care about this slide BECAUSE

Speaker Notes...

Move out standards and patent stuff...

Glaser testified against Microsoft before Senate Judiciary in July 1998 and lobbied Sen. John Kerry on a February flight from Davos. He may also be in contact with Senator Hatch to allege anti-competitive integration of Media Player. Becoming a more active member of SIIA.

Maria Cantwell Positions held

> Vice President of Marketing
>
> Consumer Affairs Executive
>
> Senior Vice President of the consumer and e-commerce division
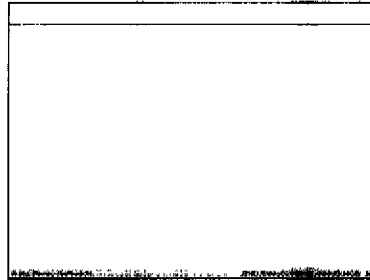
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Political Activity

- Promotes laws to protect internet privacy.
- Supports expanded immigration visas for foreign workers.
- Successfully opposed the "Clipper Chip", a Clinton administration proposal that raised privacy concerns.
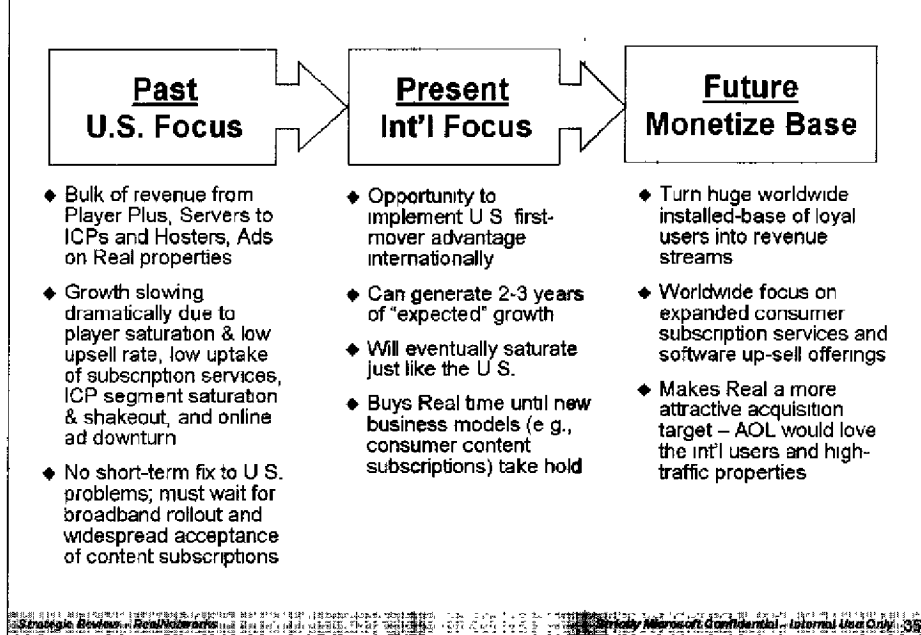- Didn't adopt a trademark issue during her two terms in the legislature.
- Campaigned for then Sen. Alan Cranston, D-Calif., in his bid to win democratic party nomination for president in 1983.
- Elected to the Washington state Legislature in 1986.
- Elected to the 1st Congressional District in 1992.
- Voted out of Congress in 1994.

How Real Will Grow

Past **U.S. Focus**	**Present** **Int'l Focus**	**Future** **Monetize Base**
◆ Bulk of revenue from Player Plus, Servers to ICPs and Hosters, Ads on Real properties	◆ Opportunity to implement U S first-mover advantage internationally	◆ Turn huge worldwide installed-base of loyal users into revenue streams
◆ Growth slowing dramatically due to player saturation & low upsell rate, low uptake of subscription services, ICP segment saturation & shakeout, and online ad downturn	◆ Can generate 2-3 years of "expected" growth	◆ Worldwide focus on expanded consumer subscription services and software up-sell offerings
◆ No short-term fix to U S. problems; must wait for broadband rollout and widespread acceptance of content subscriptions	◆ Will eventually saturate just like the U S. ◆ Buys Real time until new business models (e g., consumer content subscriptions) take hold	◆ Makes Real a more attractive acquisition target – AOL would love the int'l users and high-traffic properties

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Rich Lappenbusch

Rich Lappenbusch (script)

Comparative Strengths & Weaknesses

What does Real do well?
- Gaining content into their format
- Getting players distributed
- Dedicated focus on digital media
- Partner with ABM
- Staffing to meet market demand
- Integrating other company's code
- Managing public and press perception
- Cross-platform
- Ship rapidly and consistently
- Providing End-to-End solutions
- MP3 and other standards alignment

What does Microsoft do well?
- Enterprise sales & marketing
- Digital Rights Management technologies
- Bring the Microsoft name to the table
- Write more stable and usable software
- Invest in strategic relationships
- Demonstrate platform leadership (PocketPC, STB)
- NET leadership

Where is Real exposed?
- Revenue growth slowing
- Competing with partners and customers
- Relying on 3rd parties for core technology
- Organizational health employee compensation
- Privacy concerns
- Enterprise credibility
- Market valuation
- Users hate "desktop clutter"

Where is Microsoft exposed?
- Product ship cycles and lead time
- Limited cross-platform support
- Not perceived by public as focused on DM
- Public policy via ABM attacks
- Low brand awareness around DM
- Very late to launch digital media services
- MP3 and standards alignment

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Issues And Recommendations – Global Sales & Marketing

	RECOMMENDATIONS	
INVEST IN INT'L SALES/MARKETING OF DIGITAL MEDIA	Issue: Market believes Real= Streaming Media Need increased mind share	• Include WMT as core Jihad inside of Whistler roll out • Get digital media metrics on the subs GM scorecard • Include WMT metric in NSG, IBC, EPG business group objectives and initiatives.
OPEN UP PLATFORM AND PROMOTE EASY INTEGRATION	Issue Real challenging desktop and emerging platforms Need coverage of developing market	• Build OEM customization and branding pack • Integrate WMT into wireless engagement jihad • Fund "WMT" inside program for co-marketing and WMT brand awareness
DEEP MSN INTEGRATION	Issue· Real "buying" tier 1 content at prices for which we can't compete Need fight battles we can win on our terms	• Win the corporate segment to protect and expand engagements. • Win international markets so we are competing with a less-than-global company • Let the content battle continue with low investment as a war of attrition
PUBLIC POLICY	Issue Streaming not easy to implement in LOB operations Need greater solution and partner base	• Build sample application 'jumpstart packs" targeted at vertical industries. • Establish global MCS SWAT team specific to WMT/Digital media Establish/ train certified WMT ISV channel • Create and fund WMT good housekeeping seal with application testing and porting centers

Rich Lappenbusch

Top Points made on this slide (Points form understanding-leading to conclusions later)

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Why do I care about this slide BECAUSE

1. Microsoft has little ongoing effort in understanding RealNetworks as a competitor and how they collaborate with our other competitors. Establish a point of contact to track competitive wins & losses and benchmarking with RealNetworks. Empower that person to call strategic ad-hoc meetings to discuss changes in marketplace and competitive landscape.
- Not a once-a-year activity. We need to understand, react and engage near real-time.
2. Internal coordination – business modeling, service design, go to market, partnering and messaging must be coordinated among MS groups to fight Real + MS Competitive threats and maximize MSFT revenue   MSN monitors RN's shift in emphasis to content derived revenue services.
- Windows marketing and International GMs recognize how they can use WMT to get into UNIX accounts.
- Expose their privacy voliation, in forwarding enterprise server maps..
3. Guide becomes format neutral content guide site
4. Content guide site open to all formats that promotes WMF files first in prio sort
4. Market approach - should target content providers at low end of the market
5 Industry needs standard for DRM
- DRM IP Peace

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Issues And Recommendations – Extend Platform

	KEY ISSUES	RECOMMENDATIONS
INVEST IN INT'L SALES/MARKETING OF DIGITAL MEDIA	• Real is aggressively enabling solutions and embedded streaming devices that we can't match	• License origin servers for devices • Allow third party cache/proxy servers
	• Real builds more complete end-to-end solutions that Microsoft does	• Work with partners to build solutions (for example, content production, serving, network management, and Ecommerce)
EXTEND PLATFORM AND PROMOTE EASY INTEGRATION	• Real has a much better universal, rich interactive platform, so they can reach all mac and windows machines with rich advertising and content	• Beef up (maybe) Unix, CE and (crucially) Mac client efforts currently only X people on it. Since our platform includes the shell, we would need to improve cross-platform browser support. • Engage Internet Explorer team – we cannot beat real in this area without a richer Mac IE – SMIL, flash, scripting
	• Real's platform is easier to develop for – there's one all-encompassing client with few incompatibilities between versions so there are no browser/platform issues	• Internally, need to engage Dev tools and windows to produce a rich media development tool that integratesw ??
DEEP MSN INTEGRATION	• Real uses RBN to gain scale for radio, video offerings • Real's consulting services allow them to build out-of-box streaming solutions we can't match	• Create most attractive CDN feeder/manager for premiere content partner • Build and promote .NET media services in the player and platform • Create consulting services to help partners implement our products/services
PUBLIC POLICY	• Microsoft DRM, potentially a huge advantage, isn't getting much traction in the industry	• Build template Ecommerce solution to show partners how makes DRM experience better • Need an MCS SWAT on DRM

Rich Lappenbusch

Top Points made on this slide (Points form understanding-leading to conclusions later)

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Why do I care about this slide BECAUSE

Issues And Recommendations – Deep MSN Integration

	KEY ISSUES	RECOMMENDATIONS
INVEST IN SALES & MARKETING OF DIGITAL MEDIA	• Real has built a world class rich media portal that they are already starting to monetize with their GoldPass subscription service	• MSN offers a worldwide localized media portal that offers best of breed music, films, and games in all major media markets, languages • Integrate MSN Movies, MSN Music, Zone, and Windows Media.com into a single easy to browse rich media environment, not just more channels • MSN offers subscription media services
OPEN UP PLATFORM AND PROMOTE EASY INTEGRATION	• As rich media content and related portals dominates more and more of the user's daily experience, users will gravitate toward rich media portals and our brand relationship (Windows and MSN) will erode	• Focus our media efforts on broad distribution services, not production • Build the alternative for all partners to the AOL/TW+Real distribution system • Build strong distribution partnerships with labels and studios • Market this new distribution service aggressively to consumers • Tightly integrate Mars with MP and all other content services • Promote and integrate MSN media and services in the player experience • Promote third party channel file optimizations for WMT and NET Invest in content delivery services now: Move faster on MSN Music, Movies Design interfaces that Real cannot steal MIME types in Mars
DEEP MSN INTEGRATION	• We are relatively late to market when we launch digital media services	• Recognize cost of arriving late to market and look to next generation of content services we can leapfrog them (DRM, P2P location services) • Executive commitment to understand the media industry • Create the leading movie vertical as a bridge to a broadband movie marketplace
	• Real has broad international reach	• MS-wide commitment to Windows Media worldwide including US • MSN programs high quality media guides into MP & browser for WW markets • Get on the GM scorecard in the subsidiaries for promotion of player • Focus on international promotion of the MP on the MSN & MS com sites • Drive upgrades off Microsoft com cover page in all major European markets • Create mobile media optimized content portal
	• Media is still too difficult to find	• Optimize MSN for media searches prioritizing WMF and subscription content • Tune the OS to offer proactive approach to media availability alerts by personal choices (MSNBC NewsAlert)
PUBLIC POLICY	• Preferred content relationships (e g special and deep marketing advantages including	• We want media launch time advantage to drive format adoption and consumer usage. Highest degree of consumer interest in new content • Build solid relationships with content producers so they push while we pull

Invest in new WMF optimized programming for MSN media services

Rich Lappenbusch

Top Points made on this slide (Points form understanding-leading to conclusions later)

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Why do I care about this slide BECAUSE

•Real has built a world class rich media portal that they are already starting to monetize with their GoldPass subscription service
MSN offers a worldwide localized media portal that offers best of breed music, films, and games in all major media markets, languages
•Integrate MSN Movies, MSN Music, Zone, and Windows Media.com into a single easy to browse rich media environment, not just more channels
•MSN offers a subscription media service
•
•As rich media content and related portals dominates more and more of the user's daily experience, users will gravitate toward rich media portals and our brand relationship will erode resulting in negative impact on Windows and MSN brands   Focus our media efforts on broad distribution services, not production
•Build the alternative for all to the AOL/TW+Real distribution system
•Build strong distribution partnerships with labels and studios
•Market this new distribution service aggressively to consumers
•Tightly integrate Mars with MP and all other content services
•Promote and integrate MSN media and services in the player experience
•Invest in content delivery services now. Move faster on MSN Music, fund MSN movies
•Design interfaces that Real hijack MIME types in the Mars
•
•Real has a broad reach now and is growing internationally very fast   MS-wide commitment to Windows Media worldwide including US
•Build high quality media guides into MP and browser for all major markets and related languages (26 today).
•Get on the GM scorecard in the subsidiaries for promotion of player
•Focus on international promotion of the MP on the MSN & MS com sites
•Drive upgrades off Microsoft.com cover page in all major European markets especially Sweden, Italy, and Netherlands
•Create mobile media optimized content portal
•Real uses RBN to gain scale for radio, video offerings   Create most attractive CDN feeder/manager for premiere content partners and selected events

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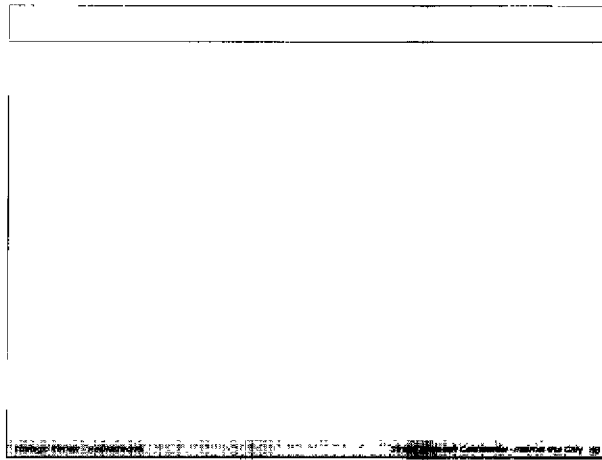
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•Use Windows Update Infrastructure as
•Create consulting services to help ISPs adopt and implement our products and services.
•Promote .NET services in the player and platform
•Media is still too difficult to find   Optimize MSN for media searches prioritizing WMF and subscription content.
•Tune the OS to take proactive approach to media availability alerts by personal choices (MSNBC, NewsAlert)
•We are late to market when we launch digital media related services   Recognize cost of arriving late to market and look to next content services we can leapfrog them (DRM, P2P location services)
•Create the leading movie vertical as a bridge to a broadband movie marketplace
•Why are we always so late to commit commitment at high level, too much time spent on education of execs. vs proposal. Rob doesn't need to be educated, he wants to move fast, no afraid to trial, 5 people a year ago, vs. trying to play catch up later.
•Executive commitment to understand the media industry
•Promote third party channel file optimizations for WMT and .NET (filmspeed, rolling stone, etc.)
•Preferred content relationships (e.g. special and deep marketing advantages including   We want media launch time advantage to drive format adoption and
•New stuff has higher degree. First week preview only in WM, Build set of exclusive programming on MSN promoting WMF optimized events and content. (MSNBC live, NSYNC, etc.)
•Build solid relationships with content producers so they push

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Issues And Recommendations – Public Policy

	KEY ISSUES	RECOMMENDATIONS
INVEST IN SALES & MARKETING OF DIGITAL MEDIA	• Real is masterful at managing public perception of the digital media space	• Commit people, money, resources, services to capture mind share and establish Microsoft as a leader in digital media technology development and format usage • Develop and strengthen relationships with industry coalitions
OPEN UP PLATFORM AND PROMOTE EASY INTEGRATION	• MS has opportunities to join industry-wide efforts to promote policy on content regulation and other priorities	• Highlight industry cooperation of policy (e.g. content regs) • Encourage Real & competitors to work for pro-industry policies • Focus on making technology available to key influentials asap
DEEP MSN INTEGRATION	• Real appears to be preparing a policy and political campaign to encourage federal, state, and international law enforcement to prohibit the integration of DMD into Windows and/or encourage regulatory oversight over MS Real is opening a government affairs office in DC Spring 2001	• Apply lessons from Netscape and DOJ political campaign • Educate lawmakers, elites, and third parties on industry technology, history of MS and Real competition and consumer value of integrated features in OS • Define Real as aggressive competitor, debunk "victim" status image, and expose privacy problems through third parties and grassroots campaigns • Utilize rapid response team to discourage distortion campaign • Engage friendly trade associations and partners to tell our story early, highlight efforts to work together on common industry interests • Allow Real to marginalize itself politically (i.e. let Rob be Rob). • Work with PR to frame political and policy issues for general public
PUBLIC POLICY		

Anticipate anti-MS political campaign and promote pro-industry policies

Rich Lappenbusch

Top Points made on this slide (Points form understanding-leading to conclusions later)

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Why do I care about this slide BECAUSE

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APPENDIX

Rich Lappenbusch

Quotable Quotes

"Our experience shows it growing a lot faster than that. 12 months ago Real was 90% of our audience and MS 10% Today the opposite is true. Locally MS have been very active in encouraging take up of the product whilst Real don't seem to know whether they are a software, services or media company and are leaving a trail of confusion behind them."
-- Jim Stewart, whoopi net, Australia

"Real has not convinced me at all that they will succeed in penetrating the international market. In fact, we are telling all of our clients to avoid Real stock at all costs. We believe their only hope right now is to be bought out by someone like AOL. Although, I have yet to hear any solid rumors on that front"
-- Analyst Merrill Lynch

Rich Lappenbusch

Top Points made on this slide (Points form understanding-leading to conclusions later)

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Why do I care about this slide BECAUSE

Speaker Notes...

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Industry Strategy

Strengths	Opportunities
Ability to set standards – both streaming format and SMIL **Embraces multiple platforms, formats, DRMs** Macintosh, Solaris, Linux, HP Unix, AAC, Liquid, Intertrust, Flash, etc **Quietly establishing anti-Microsoft alliances** **Actively participating in industry organizations** IWA, DiMA and SIIA	**Formalize AOL relationship with cross-ownership** **Collaborate with Sun, IBM, and InterTrust on new standards** **Grow the Apple relationship** **Selling content subscriptions**
Weaknesses	**Threats**
Real competes its customers in promotion of its brand, its content, its user experience, and its network **Cut-throat business practices has created little loyalty and bad reputation** **Embrace of MP3 has alienated some labels**	**Privacy groups expose usage of data** Site privacy mixture within the Real group of sites surfaces **Microsoft starts to build industry partnerships that drive Windows2000 usage of WMT** **WMT wins widespread adoption** **MPEG4 wins widespread adoption** **QuickTime wins widespread adoption**

Source: Gary Sullivan, Allen Gersho, LCA, Broadsewc (Washington AP)

Rich Lappenbusch

Bill Spencer (script)

Top Points made on this slide (Points form understanding-leading to conclusions later)

1   Here is a SWOT analysis:

Strengths

1. Real is setting standards – few ICPs feel they can offer a credible streaming service without offering Real and many are exclusive to Real. Also, there are more ICPs using SMIL than almost any MS web-based standard. SMIL is the standard for synchronizing streaming media and text.

2. Real has created a more open platform than MS – by supporting more clients (excellent Mac has been very important for winning over the entertainment industry) and more servers (Solaris, Linux, HP Unix), and offering a more plug-able interface so AAC, Liquid, QuickTime, Flash and InterTrust

3. The Real iQ System, announced 12/11, is supported by the who's who of the streaming biz and the ABM crowd. Akamai Technologies, Deutsche Telekom, Digital Island, Enron Broadband Services, IBEAM, Intel IMS, Madge.web, Mirror Image Internet, NET-36 (a PamAmSat Company), and Speedera. Technology companies supporting RealSystem iQ include Adobe Systems, Avid Technology, CacheFlow, EMC, F5 Networks, Hewlett Packard, IBM, Inktomi, Intel, Lucent Technologies, Macromedia, Network Appliance, SecureMedia, and Sun Microsystems. AOL and Apple provided quotes.

4.   Another strength is Real's participation in the ABM consortium and industry organizations <not my points so I don't have a lot to say>

44
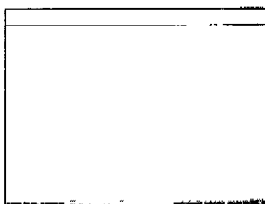
Continued from previous slide

Weaknesses

1. 4. Real's business model to get to its current position has moved from being a strength to a weakness. As most of its customers are under severe financial pressure, Real's competitive nature is working against it.
2. It has alienated customers with its sharp business practices and support for MP3.

Opportunities

1. Real needs to partner in the consumer space to take its business model to the next level. AOL is an obvious choice, but also Bertelsman or any major label or studio.
2. Further collaboration with ABM to establish standards is another opportunity.

Threats

1. Real could lose users to continued privacy problems
2. To the extent streaming becomes part of the operating system – either WM formats, QuickTime or MPEG4 -- it will make it hard for Real to charge separately for software and content promotion

Why do I care about this slide BECAUSE Real is vulnerable to extent it cannot set standards or extract a tax from its business model.

Speaker Notes. .

Place in other Policy slide:

Glaser testified against Microsoft before Senate Judiciary in July 1998 and lobbied Sen. John Kerry on a February flight from Davos. He may also be in contact with Senator Hatch to allege anti-competitive integration of Media Player. Becoming a more active member of SIIA.

Maria Cantwell Positions held

> Vice President of Marketing
>
> Consumer Affairs Executive
>
> Senior Vice President of the consumer and e-commerce division

Political Activity

> Promotes laws to protect internet privacy.
>
> Supports expanded immigration visas for foreign workers.
>
> Successfully opposed the "Clipper Chip", a Clinton administration proposal that raised privacy concerns.
>
> Didn't adopt a trademark issue during her two terms in the legislature.
>
> Campaigned for then Sen. Alan Cranston, D-Calif., in his bid to win democratic party nomination for president in 1983.
>
> Elected to the Washington state Legislature in 1986.
>
> Elected to the 1st Congressional District in 1992.
>
> Voted out of Congress in 1994.

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Marketing Expense Breakdown

Key Findings

- Real spent approximately 42% of its net revenues on marketing in the past four quarters, approximately a 100% increase from the same time period the previous year (Q4 1998 – Q3 1999)
- Real's increase in marketing expense over the previous four quarters is primarily due to 4 factors:
  - The hiring of additional marketing FTEs
  - Additional consulting and market research expenses
  - Increased advertising costs
  - RealConference and RealConference Europe expenses
- Real's $60MM dollar marketing budget in the previous four quarters can be broken into three categories
  - Advertising (~$20MM)
  - Events and Tradeshows (~$10MM)
  - Other* (~$31MM)

WW Overall Marketing Expenses

	Q4 1999	Q1 2000	Q2 2000	Q3 2000	Total Q4 1999 – Q3 2000
Total Marketing Expenses	$10.8MM	$14.7MM	$17.6MM	$17.9MM	$61MM

* Other includes, salaries and personnel costs, consulting and market research fees, cost of marketing collateral

Marketing Headcount Breakdown

RealNetworks' Marketing Teams
(125 FTEs)

Media Systems Marketing (40)	Consumer Marketing (40)	International Marketing (30)	Professional Services Marketing (10)	E-Commerce Business Marketing (5)

Media Systems Marketing (40)
- Each product line has focused marketing personnel
  - i.e., RealServer, RealTools

Consumer Marketing (40)

Consumer Products (30)
- The Consumer Products division's ~30 marketing employees are focused on product lines
  - i.e., RealJukebox, RealPlayer

Consumer Appliances (5)
- The Consumer Appliance division's ~5 employees are focused on emerging Real product divisions (i.e., mobile device applications)

Netzip (5)
- There are also 5 marketing employees focused on NetZip

International Marketing (30)
- Real's regionally organized, international marketing team is charged with marketing all Real products to specific global regions

Professional Services Marketing (10)
- Real's Professional Services Business Unit is responsible for driving Real's services marketing

E-Commerce Business Marketing (5)
- Real's E-Commerce marketing team is responsible for driving online sales
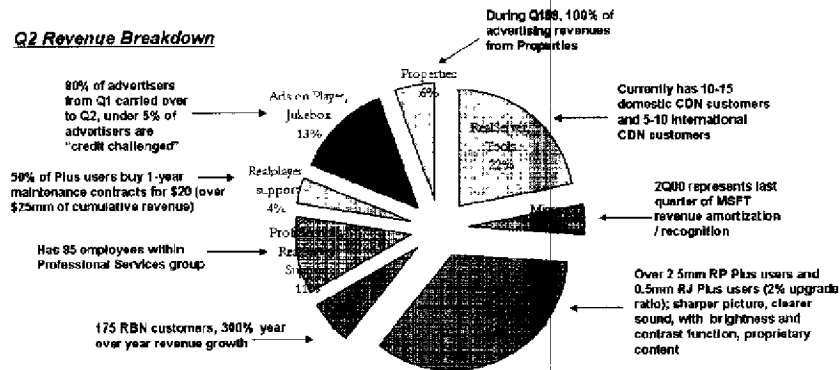
47

Standards Organizations Strengths & Weaknesses

Real's Strengths:
▸ 3GCF
- »New organization co-founded by Nokia & Ericsson
- »Last meeting was hosted by Real in Seattle
- »Real is pushing for use of IETF Standards
- »Real technology to be developed for Nokia phones

▸ SMPTE
- »Some discussion of using Real's technology for high quality digital cinema applications

Microsoft's Strengths
▸ 3GCF
- »Newly announced relationship with NTT DoCoMo to deploy Windows Media Technologies (WMT) in cell phones gives Microsoft a strong presence in mobile world
- »Pending deal with Ericsson to adopt WMT will further enhance Microsoft presence.

▸ MPEG
- » ITU-T advanced video experts group (chaired by Gary Sullivan) may submit its new H.26L technology to MPEG for testing

Real's Weaknesses
▸ 3GCF
- »Real has been passive in meetings and is not taking a leadership role

▸ MPEG
- » Real has attended only 1 meeting
- »Together with Intel, asked MPEG to adopt RealVideo 8 without alteration (not standard procedure)

▸ SMPTE
- »No real traction

Microsoft's Weaknesses
▸ 3GCF
- »Microsoft is strongly outvoted on proposals for a framework agreement and confidentiality rules
- »Nokia dominates the proceedings; Microsoft's relationship with Nokia is weak

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Revenue Mix

Q2 Revenue Breakdown

During Q1#9, 100% of advertising revenues from Properties

90% of advertisers from Q1 carried over to Q2, under 5% of advertisers are "credit challenged"

Currently has 10-15 domestic CDN customers and 5-10 international CDN customers

50% of Plus users buy 1-year maintenance contracts for $20 (over $25mm of cumulative revenue)

2Q00 represents last quarter of MSFT revenue amortization / recognition

Has 95 employees within Professional Services group

Over 2.5mm RP Plus users and 0.5mm RJ Plus users (2% upgrade ratio); sharper picture, clearer sound, with brightness and contrast function, proprietary content

175 RBN customers, 300% year over year revenue growth

2Q Analysis

Consumer licensing down as percentage of revenues from Q1 (38%) due to launch

Systems and CDNs accounted for most of licensing revenue growth

Advertising revenue up 41% from Q1, now accounting for 19% (up from 16%)

Services revenue up 17% from Q1

Source: Bear Stearns interview, CSFB research, and Merrill Lynch research

Denmark West
Denmark West (script)
Top Points made on this slide (Points form understanding-leading to conclusions later)
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Why do I care about this slide BECAUSE

Speaker Notes...

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① Key points
② Top wireless device manufacturers
③ Top wireless carriers
④ Wireless SWOT

Kurt Buecheler

Top Points made on this slide (Points form understanding-leading to conclusions later)

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Why do I care about this slide BECAUSE

Speaker Notes...

Push to back...

Israel Geo Interactive check with Amy....

Enterprise Segment Backup

① Product Assessment

Real wins
- Rich-media authoring tools
- Unix client & server support
- Encoder push to server
- Remote server admin

Real loses
- Desktop clutter
- Player as browser
- Server scale/reliability

Tie
- Managed player
- A/V quality
- Bandwidth management
- Content management

② Alignment with Customer Requirements

	Enterprise	Analysis
Enterprise "fit"	• Integration with existing systems • Cross-platform clients and servers	• Minimal integration but not a liability • Multi-platform client and server a big plus
Cost	• Enterprise licensing programs • Low price	• Real willing to drop price by 75% to win • Generally regarded as too expensive
Complete solutions	• Software for authoring, publishing & management • Prof Svcs for planning, deployment, encoding, hosting	• RCS a huge advantage every deployment is custom • Complete solution hard to counter
A/V quality & Network impact	• TV quality to the desktop • Bandwidth mgmt	• Parity situation, no advantage for Real

③ Key Programs and Partners

Programs
- SM starter kit
- Solution bundles on website (software, consulting, hosting)
- Free encoding from Loudeye
- Gov't seminar series in VA

> • Key programs visible through the sales force
> • But not much impact on customers

Partners
- Who's who of top ASPs on Internet
- StarLight and RCS inside the firewall
- Major UNIX vendors/OEMs (Sun, HP, IBM/Lotus, RedHat)
- Two Govt-specific resellers

> • ASPs work with Real because "they have to"
> • ABM strategy with UNIX vendors gives Real enterprise credibility

④ Worldwide Sales Force Structure

- Approx 50 enterprise salespeople worldwide
- 25 dedicated U.S. enterprise "segment" salespeople (lg accounts), represents ½ of U.S sales force
  - Corporate 17 people
  - Government 5 people (all in DC)
  - Education 3 people
- 27 telesales, org'd by region, not vertical (6-7 ent. if ratio holds)
  - Very focused on OEMs (Sun, HP, IBM)
- 70 int'l salespeople across 4 segments (15-20 enterprise if ratio holds)
- Compensation: Commission on units sold + bonus for new accounts

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Gary Schare

SM Starter Kit

CAPTURE IT <u>Osprey 100 video-capture card</u>, Labtec stereo headset/boom microphone

CREATE IT <u>Terran's Cleaner 5: RealSystem Edition</u>—Limited-time addition. Software for batch-encoding and advanced filtering capabilities
<u>RealProducer Plus</u>—Content-encoding software
BROADCAST IT <u>RealServer Plus</u>—Supports 60 simultanious (sic) viewers
<u>Upgrades and Support</u>—A full year for each of your RealNetworks products (worth nearly $1,000). This entitles you to updates as we continue to improve these products and also means that you'll be able to reach a RealNetworks technical support engineer by telephone should you have a problem or question.

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Consumer Segment

(1) Revenue Summary

	Q4 1999	Q1 2000	Q2 2000	Q3 2000	Total
Partners and Ad Placement					
Service Manufacturers	N/A	N/A	N/A	$671	$671
Upgrades on RealPlayer	$7,799	$9,512	$11,600	$13,700	$42,611
Upgrades on RealJukebox	$1,747	$2,184	$2,600	$3,100	$9,631
Maintenance contracts	$2,200	$2,600	$3,000	$3,400	$11,200
Other					
Total	$15,208	$16,200	$20,676	$21,490	$75,565

Growth Drivers
- Subscription services from installed base of RealPlayer/Jukebox users
- "Office" positioning for Real Entertainment Center (RealPlayer 8, RealJukebox 2, RealDownload 4)

(2) Real Aligned with Consumer Requirements

	Real's Offer	Analysis
Ease of Use	• The right tool for your every need • Cross-platform clients	• Multiple UI/apps confusing to consumers, reviews evidence this
Best A/V Quality	• TV quality to the desktop • Cd quality Audio	• Parity
Content Selection	• Widest range of content • #1 player in the world	• Still enough exclusive content to drive perception of leadership and customer 'need'
One-Stop-Shop	• Suite of consumer products + services	• No all in one' solution that is simple

(3) Products, Programs, and Partners

Products and Programs
- RealPlayer – streaming playback
- RealJukebox – local (CD, MP3, more) playback and creation
- RealDownload (download and zip file management)
- Real Entertainment Center (bundle of 3)
- GoldPass-$9.95/mo consumer subscription program w/content and product upgrades
- Real.com – content showcase
- Real.com Online games – competes with MSN Gaming zone

Partners
- AOL for broadband
- OEM: Phoenix distributing RealPlayer/Jukebox on 'whitebox' oem machines

(4) Real Consumer SWOT

Strengths	Opportunities
- Leadership perception - Many categories of offerings - Services add new functionality to players market - Blending of player/content marketing (Real.com GoldPass) - Perception Real is "first" have in streaming radio	- Subscription services lack in customers - Continued assimilation of competing technologies – "universal player" - Services continue to drive revenue which feed content which feeds services
Weaknesses	**Threats**
- Consumers' UI is cluttered and full of pop up windows - Upsell versions create confusion - Consumer confusion over player/jukebox - Hard IHV relationships strict branding requirements on licensees	- MSN/Windows Media.com reach greater than Real - MS offers music services beyond content promotion - Consumer confusion drives customers away

Kurt Buecheler

Consumer Segment

⑤ Product Assessment

Real wins
- "Suite" of consumer products
- Consumer services offering w/Goldpass
- More 'consumer' UI – complex, but looks good
- Mac support

Real loses
- Multiple UI confusion
- No All in one player
- "For-free Plus versions turns off NetGen customers

Tie
- A/V quality
- Distribution/Installed base

⑥ Consumer Marketing Structure
- RealNetworks Consumer business unit has two two major divisions
- Consumer Products (PC-based) and Consumer Appliances (non-PC based)
- ~30 marketing employees for RealJukebox, RealPlayer
- 5 for NetZip (RealDownload)
- The Consumer Appliance division's ~5 employees are focused on emerging Real product divisions (i.e., mobile device applications)

⑦ Goldpass Overview
- Introduced in August 2000
- Access to exclusive content, service programs, and product upgrades
- Only delivered ~$400K revenue in first quarter 2000
- More details in backup

⑧ Consumer Electronics
- **Partners.**
- Thomson/RCA (Lyra device – dropping Real format support in Q1 2001)
- Sony – formal support/Jukebox bundling with future internet appliance but not Memory Stick or Vaio devices
- Nokia (Agreement for 'future' development)
- nCube (broadband VOD)
- Real also on most internet radio devices today, but most are moving to parity with Windows Media

Strategic Review – RealNetworks | Appendix x-y | Strictly Microsoft Confidential - Internal Use Only | 53

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ISP/Hoster Segment

① Revenue Summary

Revenue	Q4 1999	Q1 2000	Q2 2000	Q3 2000	Total
ISP/Hoster	$8,953	$9,300	$10,852	$11,411	$39,115

Growth Drivers
- Network SP growth rates 10%+ 15% Real revenue
- Network SP investing in large capital spend on IP networks globally
- Linux and Unix centric (+ NT) aligns with ISP and hosting incumbent infrastructures
- Real provides a one-stop implementation for hosting providers including consulting
- Cross platform / Cross format provides broadest reach

② Alignment with Customer Requirements

	Requirements	Analysis
Platform Agnostic	Compatible with incumbent Linux & Unix (and NT) architectures	Early penetration on preferred platforms in networks, momentum through upgrades
Pricing	Per stream based pricing gives attractive entry pricing	Multiple programs and pricing structures for entry and growth
Alignment with Content	ISPs and Hosters want to offer their customers the leading formats	85% of the web media content is in Real format
Business Model	Require sustainable revenue model	Provide advertising extensions and PPV subscription models

③ Key Programs and Partners

Programs
- Three bundled Solution Programs
  - Professional Solution (100/200 $8k & 16K)
  - Professional Webcast (400 / $8k + streams)
  - Professional Broadcast including live (100 / 86k, 200/$12k & 400/822k)

Partners
- RedHat - integrated media bundled with open source Linux
- AOL-branded player for AOL-Plus (BB)
- Nokia – Real player in EPOCH devices, promoting format for WAP
- @Home – 2 MM subs
- nCube – VOD solution integration w/Real8
- MCI – RBN backbone provider
- IBM – level 4 partner

- Strong partner support in key technology areas and on incumbent platforms

④ Customer wins/losses

Wins
- Nokia – EPOCH format and recommendation for WAP
- Deutsche Telekom RealSystem broadcast network
- PanAmSat European satellite distribution to ISPs
- WebTV RealAudio

Losses
- iBeam – shifting to WM model based on pricing and quality
- I-Beam

Fighting - DRAW
- Akamai
- Digital Island
- Enron

Analysis
- Given functional parity, pricing is a determining factor for ISPs/Hosting
- Early adopters and market share went to Real but tides turning based on (per stream) price and content market share
- CDN/ASPs have a vested interest in multiple formats, drives multiple encoding, storage revenues

Real is viewed as a technology and implementation partner, and competitor (RBN)

Kurt Buecheler

ISP/Hoster Segment

⑤ Product Assessment

Real wins
- Advertising insertion product
- Cross platform, Linux/Unix (+NT) support
- Land reports
- Stream splitting
- Scalability (perceived)

Real loses
- DRM
- Per stream pricing
- Integration with general purpose OS services e-commerce, back office functionality

Tie
- Business Model Support PPV subscription
- Scalability (actual)

⑥ Worldwide Sales Force Structure

- 35 dedicated Internet Infrastructure "segment" salespeople (AT&T, MCI, PSINet)
- 10 indirect sales people, ~ 2 assigned to ISP/Media Hosting (part of RealPartner program)
- 5 Consumer Appliances Marketing people, non-PC based, includes mobile devices
- 27 telesales, org'd by region, not vertical (7-10 ISP if ratio holds)
- 70 int'l salespeople across 4 segments (20-25 ISP if ratio holds)
- Compensation: Salary + commission on units sold + bonus for new accounts (commission and bonus in stock or money)

⑦ Worldwide Channel Structure

- Sell Direct through Segment Sales to Internet Infrastructure Providers (CDNs, ASPs, last mile providers)
- Indirect to media hosters and ISPs
- Outsource content onto RBN

⑧ SWOT

Strengths	Opportunities
• Platform Agnostic • Low adoptor costs • Early market share momentum • Exploit early data in advertising	• Complete integrated solution with backend devices (i.e. consumer, back office, database, web publishing, mail, collaboration) • ASP hosting (all applications sharing predominately with low adoptor VAR (5.7% /yr source MS) repackage an digital media include lifetime capability) • Network SP market higher margins than Enterprise, require less service
Weaknesses	**Threats**
• Narrow offering, broad solutions require 3rd party integration • Compete with CDNs and Hosters with RBN • Compete with content aggregators with SolidPass	• No established Real player for EPOCH proposing Real as WAP standard

Real is viewed as a technology and implementation partner, and competitor (RBN)

Kurt Buecheler

E-commerce Segment

① Overview

For the purpose of this review, E-Commerce focuses on sites trying to sell merchandise on the web ("etailers"). It does not include ICPs, digital media commerce, or advertising

Growth Drivers
- Brand equity, player reach
- E-commerce solutions, ready to sell
- X-platform compatibility
- Dedicated e-commerce sales force and marketing team
- Integration with IBM, Sun, Linux e-commerce solutions
  - End-to-end solutions
  - Extended sales force

Real has a head start, and can own the space without focus from Microsoft sales force and partners

③ Programs and Partners

Programs
- Real Professional Services e-commerce offering, centered around shopping, travel, and financial portals
- Celebrity Webcasts, using network of celebrities to drive site traffic

- Real Professional services handles most e-commerce deployments today

Partners
- Few ASPs in e-commerce space, partnerships include Genuity, I-Structure.com, Xuma
- ABM in e-commerce space for end-to-end solutions (IBM, Oracle, Sun, Linux)

- Lacking partner infrastructure to drive broad deployments

② Alignment with Customer Requirements

	Requirements	Analysis
Player Reach	Player already on the desktop of target audience	Battle here is player usage. Real is winning
Solutions	Solutions that make it easy to incorporate digital media in my Web site	Real offers suite of scenario-based solutions that can be customized
Scalability	Accommodate peak traffic without compromising user experience	Real (on any OS) not as scalable as WM though not proven
Consumer experience	Customer, brand, embed the player; Multi datarate encoding; Audio/video quality	Real loses on #, parity at #2 and #3

④ Customer wins/losses

Wins
- Neiman Marcus, PEI, Ebags, Invisio, Broadcaster Network, Reinac International, FruitArtist, Guinness Book of World Records

Losses
- Pgl.com, Tesch.com, Virtuals, Secret

Fighting
- MsShow.com, Eyecast.com, Badega

Analysis
- Default choice is Real
- WM sometimes at parity, rarely WM-only
- Real loses when we engage

Real is viewed as the leader in E-commerce, due to player reach, solutions offering, x-platform compatibility

Kurt Buecheler

E-commerce Segment

⑤ Product Assessment

Real wins
- Solutions, not just technology platform
- X-platform support
- Encoder push to server
- Remote server admin

Real loses
- Branding
- Customizable player
- Server scale/reliability
- Consumer privacy

Tie
- Multi-datarate encoding
- A/V quality
- Bandwidth management
- Content management
- Secure transactions

Product/Solutions Offering
- RealSystem, RealServer touted as e-commerce platform
- TV Commercial Hosting
- Multimedia Merchandiser
- Talking Catalogs
- Travel Portal
- Internet Radio Station
- Integration in IBM eServer (AIX)

⑥ Worldwide Sales Force Structure
- 18 total sales heads in e-commerce
  - 10 in Segment Sales (top accounts)
  - 8 in Direct Sales (smaller accounts)
- 5 total marketing heads in e-commerce

⑧ SWOT

Strengths	Opportunities
- Perceived as a "leading edge" company in digital media space - Brand equity/Player reach - Complete solution offering - X-platform compatibility - Professional services	- Target UNIX shops as low-hanging fruit - Ride coattails of IBM, Sun, Linux e-commerce penetration - Participation in VC Road Shows to maintain leadership perception - Work through MCSPs to get into Microsoft accounts
Weaknesses	**Threats**
- Services can't scale to drive deployment of Real solutions to the masses, focused on small # of big deals - Expensive products/solutions compared to competition - Scalability not proven - Customer and ASP relationships are weak - Questions about Real's longevity	- Customers switch out to stem misuse - MS has e-commerce sales force to pick up opportunities we can't engage on - MS's success in corporate spills over to e-commerce - MS harnesses MCSPs - WM Player reach continues to catch up

Analysis
- There's a lot of opportunity "left on the table" where neither Real nor WM is engaged
- Real is default choice based on brand equity/player reach
- As WM Player reach grows customers will be unwilling to pay Real
- MS shops will default to WM because "it's there"

Kurt Buecheler

Advertiser Customer Segment

① Revenue Summary

Real Networks- Revenue from Advertising

Q4 1999	Q1 2000	Q2 2000	Q3 2000
$ 6 685	$ 8 407	$11 797	$13 506

*Metrics in thousands

Expect our advertising revenues to drop significantly in the next few quarters. The market for internet advertising has somewhat soured and a few of our major contracts are coming up in the 4th quarter of 2000. We need to compensate for the loss in other areas" Director Public Relations, Real Networks

② Ad Revenue Growth Rate

Real Networks- Overall Growth Rate
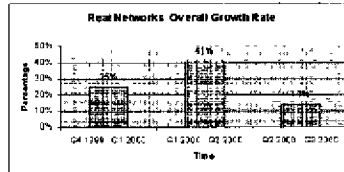
Analysis

• Real's sales strategy involves cross-selling software, services and advertising to each customer. These package deals account for up to 30% of total sales

• Real is geared toward leveraging it's player distribution, site traffic and guide real estate to maximize it's revenue – Real charges most ICPs -- gives free promotion only to top content partners

• Real's partners on the player channel bar pay a fee for the premium brand placement

• Expansion in international markets. Real will attempt to mimic its' first-mover success in the North American markets in emerging markets, other than Europe and Asia.

"In order for us to sustain our market lead, we must concentrate our efforts in areas that we see opportunity. Since the consumer, ICP and advertising markets are on the decline, we need to focus on Enterprise, and professional services. Of course we cannot exclude our international efforts which should help us drive our growth rate. (VP, Marketing, Real Networks' International Group)

③ Key Programs

Programs
- Advertising (Real com & Real Guide)
- Slotting Fees
- Revenue-Sharing Real avoids revenue sharing derived from commerce, instead requiring upfront fees
- Database Sales Real utilizes its user registration DB for targeted partner promotions that start at $25K

Web & Distribution Sales
- Website Advertising Sales
- Media and Distributions Sales

- Audio Highway paid $100K per month for NetZip Placement
- Checkout com paid $10M upfront for broad placement on Real Guide
- Real's 15 person advertising Sales team is responsible for traditional website advertising in addition to media and distributions sales

Kurt Buecheler

Advertiser Customer Segment

④ SWOT

Strengths	Opportunities
• 100M+ installed base and resulting impressions in player and traffic • Proven sales organization • Track record of ICPs paying • Strength in consumer segment • Cross selling of software, services and placement	• Picking up ICPs who cannot afford Real's prices • ICPs are serving majority of WMP 00 users • Windows Media integrated more deeply into MS
Weaknesses	Threats
• Gold pass introduced Aug 2000) not as successful as expected • Lagging in internet ad revenues • MSFT is delivering better value to ICPs and consumers • Key contracts expiring in Q4	• International expansion, additional sales people • Potential success of Gold Pass (conversion non-paying to paying customers) generated $497K in the third quarter of 2000

⑤ Geographic Revenue Breakdown

(For all revenue, Geo. details for ad revenue not available)

	Q4 1999 Q4 1999	Q1 Q Q1 2000	Q2 2000 Q2 2000	Q3 Q00 Q3 2000	Total Q4 1999 – Q3 2000 Q4 1999 – Q3 2000
North America*	$34,328	$41,172	$46,989	$48,391	$169,880
International	$9,126	$12,356	$15,667	$18,733	$55,891
TOTAL REVENUE	$43,454	$53,529	$62,656	$67,124	$226,762

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Enterprise -- Keeping Up the Momentum

Microsoft WW field

- Target accounts aligned with Win2000/ SunDown goals
- Drive integration w/ MS vertical sales teams
- Increase TS/MCS Champs accountability via goal-oriented Champs program
- Deliver training to Champs via WM Airlift
- Deliver WM Sales/Training Kit to WW field
- Participate in relevant district events
- Equip target offices with encoding "studio"

Windows Media ASPs

- Strategically invest in top 1-2 ASPs, to drive broad adoption of WM
- Deliver WM Sales/Training Kit to masses
- Handpick ASPs to participate in WM RDPs
- Co-fund advertising, customer events

OEMs

- Partner with top OEMs in enterprise space, include WM material "in the box"

Microsoft Certified Partners

- Identify MCPs to be WM "Champs"
- Deliver training to MCP Champs, in conjunction with WM Airlift for TS/MCS
- Deliver WM Sales/Training Kit to masses
- Integrate WM content in MCP events and materials
- Showcase top 5 MCPs making most $$ with WM, share best practices

Customers

- Re-ignite Customer Advisory Council
- Implement RDPs for Producer/Eclipse
- Deliver Webcasts targeting BDMs
- Integrate in TechNet efforts to reach IT
- Integrate in relevant broad reach advertising driven out of CMO
- Build inventory of customer references, case studies, showcase on the web and at events

Strategic Review - Summarize. Microsoft Confidential - Internal Use Only 60

Gary Schare

Market Conditions

1. PC/Internet Growth Continues Globally[1,2]
- US no longer leader in home PC penetration, but still largest PC/Internet user population
- Heavy growth in Europe and Asia, both PC and Internet

2. Digital media stimulating adoption of new internet activities, trial of new technology/ devices[3]

In US PC becoming popular device for music/video
- 42 Million played music CDs on PC in past month
- 24 Million downloaded music to their PC
- 20 Million listened to streaming audio
- 19 Million listened to Internet radio
- 14 Million watched streaming video
- 6 Million burned their own CDs

3. RealPlayer Winning Share War Globally[4,5]
RealPlayer leads in consumer usage in 8 out of 9 key Internet-using countries
- Adoption highly driven by brand awareness and Real's dominant share of content, product not differentiated as "better player"[6]

PC/Internet Penetration	1999 HH PC Pen	Growth (1999-00)	HH Internet Pen	Growth (1999-00)	Est # Internet Users (Million)
Australia	61%	9%	34%	48%	6.8
US	51%	19%	39%	56%	87
Japan	50%	47%	28%	110%	14
Canada	50%	9%	31%	41%	13.7
Western Europe	39%	15%	21%	200%	38
Southern Europe	39%	16%	12%	300%	8.6
Latin America	28%	63%	10%	150%	12.7
Eastern Europe	18%	60%	9%	700%	9.0
Southeast Asia	13%	50%	7%	250%	9.5

Media Player Usage	Any	Real	WMP	Est # Real Customers (Million)
US	64%	56%	23%	31.9
Canada	41%	31%	7%	2.9
Australia	32%	13%	7%	0.9
Japan	32%	19%	7%	3.4
Germany	29%	11%	11%	1.8
Sweden	25%	11%	5%	0.4
Netherlands	25%	8%	4%	0.3
UK	24%	10%	4%	1.3
France	21%	11%	4%	1.0

Source: [1]Roper WW [2,4]MSN Int Sizing Study [3,6]MS Consumer DM Tracker [5]Media Metrix

Catherine Ward

The AOL-RealNetworks Relationship Evolution

- ▸ **Distribution Deals**
  - ‣ *Real Ships with AOL Signup Software*
  - ‣ *Real Player ships with Netscape browser and Netcenter*
- ▸ **Integration**
  - ‣ *Real Player is part of AOL's Spinner Player*
  - ‣ *Real integrates AOL Instant Messenger*
  - ‣ *AOL Integrates Real Player into Netscape*
- ▸ **Content**
  - ‣ *AOL sponsors and obtains internet rights for BigBrother TV Show AOL Selects Real as exclusive technology provider Real paid $3 – 5M for privilege*
  - ‣ *AOL drives its ICPs to provide content in Real formats*

- ▸ **Future deals**
  - ‣ *AOL/TW merger documents discuss potential acquisition of Real Networks*
  - ‣ *January - Thought of acquiring them by Summer - Still thinking about but no immediate plans*
- ▸ **Industry**
  - ‣ *Yahoo stated belief that AOL will buy Real*
  - ‣ *Yahoo has moved away from Real and has towards integrating WMT*

AOL Bundles Player in AOL CD - first player bundled (AOL V 4 0) (RN 5 0, G2)	RealPlayer Integrates AOL AIM G2 Update 1	AOL selects Real in AOL Plus (BB) service RealPlayer, RealProducer, and RealServer	Real creates AOL branded Player	AOL selects RealSystem 8 network-wide deployment	Content partnership around BigBrother TV program	Netscape distributes Real Player browser and Netcenter	Real distributes Spinner AOL's free Web radio player based on RealPlayer technology	Real bundles AOL signup software with Real Player	AOL ships Netscape 6 with RealPlayer 8
09/28/98	03/18/99	05/10/00	05/10/00	07/13/00	07/13/00	07/13/00	07/13/00	07/13/00	11/14/00

Rich Lappenbusch
Maurigo data

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AOL Integration Examples

Note that RBN delivers AOL audio channels

AOL featured content player

AOL Video player

AOL Audio Player – uses video space for brand/ads

Cash Flow and Profitability Summary

9 QUARTERS OF POSITIVE CASH FLOW AND 4 QUARTERS OF PROFITABILITY

($ in millions)

Revenues (1)	1996	1997	1998	1999	2000E	CAGR
Licensing	$19 4	$29 2	$48.5	$90 6	$154 8	88%
Service	1 1	5.0	14 7	28 5	55 2	165%
Advertising	1.0	2.3	3.1	14.1	47.4	161%
Total	$21 6	$36.4	$66.4	$131 2	$257 4	86%
Growth	299%	69%	82%	98%	96%	
Op Income	($4 4)	($17 0)	($13 8)	$0 5	$25 3	
Net Income	(4 1)	(14 8)	(8 8)	12 0	36 3	
Employees	185	326	434	648	884	48%
Rev/Employee (000s)	$117	$112	$153	$203	$291	26%

Growth in Service and Advertising revenues over Licensing

Achieved core business profitability during Q399

Recent growth in employee base and productivity has been significant, but slowdown in stock price growth may have repercussions

Note: 2000 estimates reflect an average of CSFB and Robertson Stephens' projections.

Composition of Total Revenues

☒ Licensing ■ Service ☐ Advertising
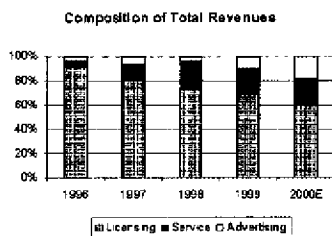
($ and shares in millions, except per share amounts)

	1997	1998	1999	2000E	CAGR
Stock Price	$3 47	$8 97	$60 16	$40 56	127%
Shares	123	134	150	154	8%
Equity Value	$428	$1,204	$9,002	$6,263	145%
Cash	62	52	345	342	76%
Debt	1	1	0	0	
Enterprise Value	$367	$1,153	$8 656	$5,921	153%
EPS	-$0 10	-$0 13	$0 04	$0 22	
P/E	-34 7x	-69 0x	1503 9x	186 7x	
Ent Val/Rev	10 1x	17 4x	66 0x	23 0x	

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International Spend Grows

Geographic Revenue

CAGR	
N America	97%
Europe	75%
Japan/Asia	76%

1997: 9%, 9%, 13%, 68%
1998: 15%, 7%, 11%, 67%
1999: 8%, 8%, 12%, 71%

Legend: North America · Europe · Japan/Asia Pacific · Rest of world · Microsoft license agreement

Seattle vs Int'l (1) – based Employees

CAGR	
Seattle S&M	38%
Int' S&M	41%
Seattle R&D	61%
Seattle Other	10%

1997: 96, 105, 79
1998: 98, 189, 100
1999: 135, 272, 150

Legend: US-based Sales & Marketing · Int'l-based Sales & Marketing · R&D · Other

Majority of revenues derived from N. America, however, int'l revenues now comprise 28% of total, with significant growth during '99 from Europe

40% of RealPlayer users are international (approx. 50mm)

14% of RNWK's employees are based overseas, with growth slightly higher than Seattle-based S&M employee growth

(1) Assumes all employees based in international offices are in the Sales & Marketing function.

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Financials -- Income Statement

($ in millions) Revenues (1)	1996	1997	1998	1999	2000E	CAGR	1999-2000 Gr
Licensing	$19 4	$29 2	$48 5	$90 6	$154 8	68%	71%
Service	1 1	5 0	14 7	26 5	55 2	165%	109%
Advertising	1 0	2 3	3 1	14 1	47 4	161%	235%
Total	$21 6	$36 4	$66 4	$131 2	$257 4	86%	96%
Growth	293%	69%	82%	96%	96%		

($ in millions) Gross Profit	1996	1997	1998	1999	2000E	CAGR	1999-2000 Gr
Licensing	$16 5	$25 4	$40 2	$77 6	$137 5	70%	77%
Margin	85%	87%	83%	86%	89%		
Service	$0 6	$2 6	$12 1	$19 9	$40 8	191%	105%
Margin	51%	52%	82%	75%	74%		
Advertising	$0 7	$1 3	$1 4	$11 2	$38 4	170%	242%
Margin	72%	59%	45%	79%	81%		
Total Gross Profit	$17 8	$29 3	$53 7	$108 8	$216 7	87%	99%
Margin	83%	80%	81%	83%	84%		
Operating expenses							
R&D	$6 3	$15 7	$22 5	$38 4	$58 1	74%	51%
As % of Sales	29%	43%	34%	29%	23%		
S&M	$10 2	$23 0	$33 5	$53 6	$103 1	79%	93%
As % of Sales	47%	63%	50%	41%	40%		
G&A	$5 8	$7 6	$11 5	$16 4	$30 1	51%	84%
As % of Sales	27%	21%	17%	12%	12%		
Operating Income	($4 4)	($17 0)	($13 8)	$0 5	$25 3		
Other Income	$0 3	$2 2	$4 9	$11 5	$19 0		
Pre-tax Income	($4 1)	($14 8)	($8 8)	$12 0	$44 3		

Significant growth over recent years from Services, but 1999 and 2000E Advertising growth is stellar

Gross margins have been highest in Licensing, but growth is coming from Service and Advertising

R&D spending (% of sales) has been falling in comparison to historical levels

Sales & Marketing spending forecasted to nearly double in 2000

Steady-state operating margins forecasted to be 30% (given current business mix), up from current 8%

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Financials – Geography

(dollars in millions) Revenues by Geography	1996	1997	1998	1999	% Total	CAGR	1998-1999 Gr
North America	$18.9	$24.0	$44.1	$93.3	71%	70%	111%
Europe	1.0	3.4	7.1	15.1	12%	144%	112%
Japan/Asia Pacific	1.0	3.2	4.4	10.0	8%	114%	126%
Rest of world	0.7	0.9	1.0	2.6	2%	68%	161%
Subtotal	$21.6	$31.6	$56.7	$121.0	92%	78%	113%
Microsoft	0.0	4.8	9.7	10.3	8%		6%
Total	$21.6	$36.4	$66.4	$131.2	100%	83%	98%

Majority of revenues is derived from N. America, however, International revenues now comprise 28% of total (2Q00), with significant growth from coming from Europe (Scandinavia)

40% of RealPlayer users are international (approx. 50mm)

9 international editions of RealPlayer and Jukebox released last quarter and 45 out of 105 content channels are international (UBS Warburg research)

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Financials – Gross Margins
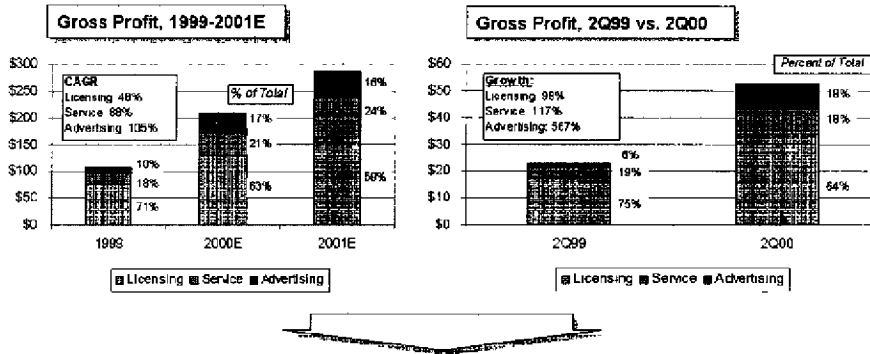
Gross Profit, 1999-2001E

CAGR	% of Total	
Licensing 48%		16%
Service 88%		24%
Advertising 105%		17%
		21%
	10%	63%
	18%	60%
	71%	

Bars: 1999, 2000E, 2001E (axis $0–$300)

Legend: Licensing, Service, Advertising

Gross Profit, 2Q99 vs. 2Q00

Growth:	Percent of Total	
Licensing 98%		18%
Service 117%		18%
Advertising: 567%		
	6%	64%
	19%	
	75%	

Bars: 2Q99, 2Q00 (axis $0–$60)

Legend: Licensing, Service, Advertising

Gross margins have been highest in
Licensing, but growth is coming from
Service and Advertising

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Financials – Balance Sheet

Balance Sheet
(dollars in millions)

Assets	1997	1998	1999	Jun-00
Current assets				
Cash and ST investments	$92.5	$89.8	$344.8	$341.7
Accounts receivable	5.3	5.1	6.9	10.4
License fee receivable	10.0	0.0	0.0	0.0
Prepaid and other	2.1	3.4	2.9	6.2
Total current assets	$109.9	$98.4	$354.4	$358.4
Net PPE	$5.1	$6.4	$26.2	$33.1
Goodwill, net	0.0	9.0	6.9	116.0
Restricted cash eq	0.0	13.7	13.7	13.0
Other assets	1.7	1.3	9.9	37.5
Total Assets	$116.7	$128.8	$411.1	$558.0
Liabilities & SE				
Current liabilities				
Accounts payable	$2.1	$3.9	$6.3	$5.3
Accrued liabilities	3.7	13.0	26.9	30.8
Deferred revenue	16.6	23.7	47.3	42.7
Total current liabilities	22.3	40.7	80.6	79.0
Deferred rent				1.8
Deferred revenue	15.5	5.8		13.5
Notes payable	1.0	1.0		
Total liabilities	$38.8	$47.5	$80.6	$94.2
Shareholders' equity				
APIC	$95.6	$123.2	$366.2	$642.4
Deferred stock comp				(125.4)
Accumulated deficit	(17.5)	(41.8)	(34.9)	(52.7)
Accumulated other loss	(0.2)	(0.1)	(0.9)	(0.6)
Total shareholders' equity	77.9	81.3	330.6	463.7
Total liab & SE	$116.7	$128.8	$411.1	$558.0
Days sales	52	26	19	19
Days payable	109	112	101	82

> Cash balance due to secondary offering in 1999
>
> Days sales have been falling, with payables remaining constant
>
> About $25mm of the $56mm in deferred revenues from license agreements with CDNs

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Financials - Headcount

Employees	9/30/1997	12/31/1997	12/31/1998	12/31/1999
R&D	93	105	189	272
Growth			*80%*	*44%*
Sales, Mktg, Distribn	103	125	147	241
Growth			*18%*	*64%*
Other	101	96	98	135
Growth			*2%*	*38%*
Total	**297**	**326**	**434**	**648**
Growth			*33%*	*49%*
Seattle-based	268	280	387	557
Other Offices (1)	24	30	31	52
Other Sales (2)	5	16	16	39
Total	297	326	434	648

(1) Japan, England, France, Canada, Germany, Brazil, Mexico, Australia
(2) Salespeople in locations other than (1)

	9/30/1997	12/31/1997	12/31/1998	12/31/1999
Assumed intl sales (1) + (2)	29	46	47	91
US-based Sales, Mktg, Distrbn	74	79	100	150
Revenues		$36.4	$66.4	$131.2
Revenues / Employee ($000s)		$112	$153	$203

> **Recent employee growth in Sales, Marketing & Distribution (37% of total) over R&D (42% of total)**

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Analyst Summary

- **Analyst Ratings:**
- **Very bullish on stock with lofty price targets, despite recent decline in stock price: 24 out of 24 analysts that currently cover Real networks rate it a Moderate Buy (17) or Strong Buy (7)**

Broker	Date	Rating	Target
Deutsche Bank	8/1	Buy	$64
Bleischroeder	7/24	Buy	$70
Lehman	7/19	Buy	$150
DLJ	7/19	Buy	$140
Friedman Billings	7/19	Buy	$120
BofA Montgomery	7/19	Buy	$108
Salomon	7/19	Buy	$100
Dain Rauscher	7/19	Strong Buy	$100
Wedbush Morgan	7/19	Strong Buy	$90
UBS Warburg	7/19	Buy	$85
CSFB	7/19	Buy	$77
WR Hambrecht	7/19	Buy	$62
Merrill Lynch	7/19	Accum	
Josephthal	7/19	Buy	
Robertson Stephens	7/19	Buy	
Thomas Weisel	7/19	Buy	
Goldman Sachs	7/19	Mkt Outperf	
Bear Stearns	7/19	Attractive	

Analyst Comments:

Competitive landscape is severe ... [but] MSFT's focus on own format and operating system will allow RNWK to leverage more compatible offerings and maintain market position

RNWK has lots of leverage in its revenue model

Multi-year deal with AOL for Real's client and server software meaningfully alleviates our longer-term competitive concerns vis-à-vis Microsoft

RNWK does not burn cash [as do most Internet companies] but rather generates cash

Success of RNWK portal could be limited by competition from Yahoo! Broadcast, more established Web presence

Broadband access may not take off as quickly ... demand for RNWK products may not accelerate in the near term

RBN will find it difficult to compete with Akamai's larger network and support for multiple streaming formats

Shifting focus away from software to content

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Arnhold and S Bleichroeder, Inc.: David Bench
Ashley Kumar: Sanjay Pal
Banc of America Securities Greg Vogel
Bear, Stearns & Co Robert Fagin
CIBC World Markets: John Corcoran
Credit Suisse First Boston Heath Terry, Jamie Kiggen
Dain Rauscher Wessels Peter Leppik
Deutsche Banc Alex Brown Justin Post
First Security Van Kasper Jennifer Jordan
Friedman, Billings, Ramsay & Co , Inc., Rob Martin
Goldman, Sachs & Co : Michael Parekh
ING Barings' David Kestenbaum
Josephthal & Co. Garrett Bekker
Kaufman Bros., L P ; Nitsan Hargil
Lehman Brothers. Michael Stanek
Merrill Lynch: Sofia Ghachem
Morgan Stanley: Myles Davis
Pacific Crest Securities. Brent Bracelin
Ragan MacKenzie: Jim Reynolds
Raymond James' Phil Leigh
Robertson Stephens' Alex Baluta
SG Cowen John J Graves
Salomon Smith Barney Steve Mahedy
Sands Brothers & Co , Ltd Ian A Post
Thomas Weisel Partners LLC. Doug Van Dorsten
UBS Warburg Michael Wallace
WR Hambrecht & Co.: Bill Lennan
Wedbush Morgan Securities. Adam Holiber

Advertising Revenue Detail

- Huge quarter to quarter growth
- Great job maintaining sales costs
- Solid implementation of new ad types
- Good integration of SMIL
- Many different avenues
  - Take 5
  - Gold Pass
  - Real.com
  - RealGuide com

Quarter	Gross Ad Revenue	Cost of Advertising	Net Ad Profit	% gross/net
6/30/2000	11,797,000	2,242,000	9,555,000	19
3/31/2000	8,407,000	1,591,000	6,816,000	18 9
Total YTD	**20,204,000**	**3,833,000**	**16,371,000**	**18 9**
12/31/1999	8,685,000	1,084,000	5,601,000	16 2
9/30/1999	4,117,000	674,000	3,443,000	16 3
6/30/1999	2,031,000	598,000	1,433,000	29 44
3/31/1999	1,266,000	550,000	716,000	43 4
Total	**14,099,000**	**2,906,000**	**11,193,000**	**20**
12/31/1998	1,078,000	520,000	558,000	48 2
9/30/1998	843,000	469,000	374,000	55 6
Total	**1,921,000**	**989,000**	**932,000**	**51 4**

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Rodney Fisher and Bill Spencer
Rob Green

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Customer List

3Com Corporation	Invesco Funds Group, Inc.	SAIC - Science Applications
Award Logic Inc.	Katawab - Gruppo L'Espresso	International Corp
Applied Materials	Key Corp	South Carolina ETV Commission
Arizona State University	Leasetec	St. Petersburg Junior College
Ascend Communications	Library of Congress	Star Media Broadband
BMW AG	Litton PRC, Inc	Starlight Networks, Inc
The Boeing Company	Logitec	STV Communications
CGI	Madge Networks	Sumitomo Corporation
Charles Schwab + Co., Inc.	MatchLogic, Inc	Sun Healthcare Group
Computer Systems Technology, Inc	Media 3K	Sun Microsystems Inc.
Convergent Media Systems Corporation	Media Intelligence Service - MIS	Tele2 Europe
County of Los Angeles	Ment Network	Teletraining Systems, Inc
Deutsche Telekom	Merrill Lynch & Co., Inc	Terra Networks
Didax, Inc	Michigan State University	Texas Instruments Incorporated
Digital Island	Microcast	Tomorrow Internet AG
Digital Lava Inc	National Ground Intelligence	Unilever PLC
Discovery Communications	Center	Unit Net AG
Enron Corporation	Navy Recruiting Command	University of Maryland
Ericsson Professional Services	NES Services, Inc	University of Michigan
Federal Express Corporation	NetVision AG	US Army
Flightnight.com	NexusGroup, Inc	USDA
The Financial Times	Nortel Networks Corporation	Veba AG
Fujitsu Network Communications	Northern State University	ViewCast.com, Inc
Global Media Corporation	Novell Inc.	VivendiNet
Globeset, Inc	Office of Naval Intelligence	Volkswagen AG
Globo Radio	Oklahoma State University	Williams Communications
iBeam Broadcasting Corporation	Oracle Corporation	Solutions
Intel Corporation	Osprey Technologies, Inc	Worldvision Inc
Interland, Inc	Pacific Bell	Wyeth Ayerst
InterPacket Networks	PanAmSat	Youwant.com
INTERVU, Inc	Perry Capital Ventures	Zing Network, Inc
Intraware, Inc	Pershing	
	Playstream, LLC	
	Pyxis Corporation	
	Rubicon Software Ltd	

Source: Real Networks website

Gary Schare

DELETE AFTER KURT INTEGRATES

Big Brother (Fall 2000)

- Purchase content on exclusive terms from Endemol (Terra)
- Pay for all encoding, bandwidth and production
  - Total cost $1.2m
- Outcome
  - Massive media coverage
  - Great pitch for ICPs- "we did big brother!"
  - Covered 9% of online market for over 2 weeks in UK, DE, ES
- Only $360K collected in player revenue/upgrades
- Ad revenue went to Endemol
  - Turned $36M in profit largely due to BB event/ related online efforts

EMEA
- Deutche Telecom 7.5M
- British Petroleum 2M
- Cable and Wireless 650K

Japan
- Transcosmos –1.6M
- Softbank-1.1M

Asia
- Tom.com 240K

Latam
- Terra 1.1M
- Televisa 550K
- UOL 705K

SPAR
Scape 450K

Kurt Buecheler

PR: Press and Analyst Audit for CY2000

① Overall Corporate Messages

- RealNetworks is making the Internet a new mass medium for audio and video
- RealNetworks is the recognized pioneer and leader in providing consumers with the best media experience on the Internet
- RealNetworks is accelerating the adoption of Internet media and the viable business models to support it
- Additional messages revolve around Rob Glaser as industry pioneer, Real as a media company, Real as a technology enabler, Real as a consumer s/w developer

② News Summary

Press Releases Issued			
Focus Area	Real Issued	3rd Party Issued	Coverage Monitored
Real as corporation	23	0	47
Real's media efforts	19	53	65
Real as tech enabler	39	38	79
Real as consumer s/w developer	24	17	46
Total	105	108	237

Coverage By Media	
Media Type	# Stories
Business Press	82
Tech Trades	129
Consumer Press	4
Music/Ent Press	20
Enterprise/IT Press	2
Total	237

③ Reviews Summary

RealNetworks Player	
Win	6
Tie	3
Loss	5
No score	1
% Win/Tie	64%
Avg. Rating	3 107

Windows Media Player 7	
Win	15
Tie	8
Loss	4
No score	5
% Win/Tie	84%
Avg Rating	3 14

RealNetworks RealSystem	
Win	3
Tie	5
Loss	3
No score	1
% Win/Tie	73%
Avg. Rating	3 04

Windows Media Technologies	
Win	8
Tie	4
Loss	2
No score	1
% Win/Tie	86%
Avg. Rating	3 006

- The Avg. Rating refers to the extent to which Real's messaging was included in the written review. Avg. Rating ranges from 2.5 – 4.0 (2.5 = no messaging or mentioned negatively; 3.0 = some messaging / neutral tone; 3.5 = most messaging; 4.0 = all messaging / positive tone-)

④ Analyst Relations Summary

Analyst	Firm	Real's Rating	Real's Trend	Win's Rating
Richard Doherty	Envisioneering	4 0	even	2 5
Larry Gerbrandt	Paul Kagan	3 5	slightly down	2 5
Seamus McAleer	Jupiter	3 0	even	2 5
Malcolm Maclachlan	IDC	3 0	up	3 0
Billy Pidgeon	Jupiter	3 0	even	3 0
Stacey Quandt	Giga	2 6	even	3 5
Eric Sheirer	Forrester	3 0	even	3 0
Aram Sinnreich	Jupiter	3 0	down	3 0
Steve Vonder Haar	Yankee	3 0	even	3 0

Ratings Legend:

- 2 5 – Negative Doesn't understand company/tech strategy/ regularly provides negative quotes and/or tends to favor the competition
- 3 0 – Neutral Does not offer quotes that affects positioning significantly either way
- 3 5 – Favorable Tends to offer positive quotes
- 4 0 – Highly Favorable Clearly understands company/tech strategy/ Regularly offers positive quotes visibly down on the competition

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Gary Schare

Content Production Products

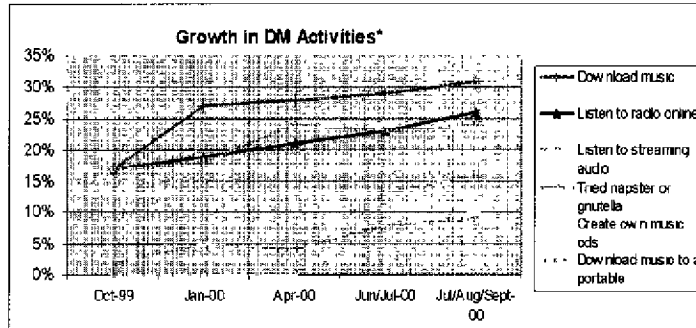|	Product	SKU	Price	Features	OS
Real Products	RealProducer	Basic	free	Real-time capture to or transcode from avi, wav, qt, mpeg, mp3 to RM and MP3. SureStream. Create HTML web page, publish to email or ICP	Macintosh, Windows and Linux
		Plus	$149	Customizable encode settings. Batch and scripting support. Backwards compatibility to RealPlayer 5.0. Bandwidth simulator, Basic RM file editor. Video cropping and scaling	Macintosh, Windows and Linux
	RealSlideshow	Basic	free	Synchronize audio with PNG and GIF images w/ transitions. MP3 and RM support. SureStream audio. Publish to SMIL and HTML	Windows
		Plus	$69.95	Text captioning, logo image support, layout control (SMIL presentation)	Windows
	RealPresenter	Basic	free	Integrated PPT add-in to synchronize audio and video w/ slides to produce an on-demand SMIL based presentation. TOC. Email notification	Windows
		Plus	$99.95	Create guided web tours. Live broadcast of up to 25 users (integrated RealServer). Distribute to RealServer	Windows
Partner Packages - bundle Real and Partner Products	Xing MPEG Encoder		$249.95	Software MPEG encoder. Outputs MPEG and MP3	Windows
	RealAudio Creation Kit		$249.00	Sound Foundry Sound Forge XP (lite). Rea Slideshow Plus, RealProducer Plus	Windows
	Cleaner 5 RealSystem Edition		$425.00	Terran's Cleaner 5 output to RM. batch encoding, processing, authoring	Macintosh, Windows
	RealProducer Production Bundle	PB	$475	Cleaner 5 RealSystem Edition and RealProducer Plus	Macintosh, Windows
	Studio for RealVideo	Basic	free	Pinnacle Studio (consumer movie maker) w/ basic output to RM	Windows
	Studio for RealVideo	Plus	$99.95	Pinnacle Studio w/ additional authoring features	Windows
	Studio Solution for RealVideo	HW	$149.95	Pinnacle Studio Plus w/ 1394 hw card	Windows
	RealVideo Creation Kit Digital		$249	Studio Solution for RealVideo + RealProducer Plus	Windows
	RealVideo Creation Kit Standard		$349	VideoFramer from FlickerFree (analog video capture and editing). Osprey 100 card, and RealProducer Plus	Windows
	Media Creation Pro		$385.00	GRiNS Editor Pro (SMIL authoring tool) and RealProducer Plus	Macintosh, Windows
3rd party products	Digital Video Creator Internal Edition USB Port DM-4150		$259.00	Hardware capture solution	PCI
	Osprey 100		$199.00	Video capture card	PCI
	(many more)			Real Partners with and retain many hardware devices	

David Caulton

Digital media growth in consumer space

▸ **Increased participation in many digital media activities**

    » *One in three internet users download music*

    » *One in four listen to internet radio and other streaming audio*

Growth in DM Activities*

- Download music
- Listen to radio online
- Listen to streaming audio
- Tried napster or gnutella
- Create own music cds
- Download music to a portable
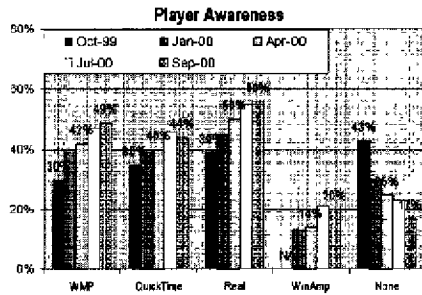
*Done by member of HH in past month

Source: Digital Media Consumer Tracker 9/00

Gary Schare

Digital media player awareness

▶ **In the consumer space, Real is the most familiar brand of digital media player**

  ↦ *Real's awareness has grown from 39% to 56% in the past year*

  ↦ *WMP only brand to grow at a higher rate during this period*

Source: Digital Media Consumer Tracker 9/00

Gary Schare

Digital media brand perceptions

▸ **Even with Real's strong position in awareness and use, DM brands really aren't differentiated in the consumer space**

    » *MP3 perceived as leader, best content selection, best sound*

    » *WM and Real close/at parity on most attributes*

Attribute	Oct-99	Jan-00	Jul-00	Sep-00
Leader in providing digital media				
MP3	14%	12%	20%	21%
Real	9%	7%	11%	12%
WM	14%	11%	9%	11%
Quicktime	10%	12%	9%	8%
Don't know	44%	42%	38%	35%

Attribute	Oct-99	Jan-00	Jul-00	Sep-00
Best sound quality				
MP3	11%	10%	14%	16%
Real	7%	4%	7%	6%
Quicktime	4%	6%	5%	4%
WM	6%	7%	3%	7%
Don't know	63%	64%	57%	54%

Attribute	Oct-99	Jan-00	Jul-00	Sep-00
Best selection of content				
MP3	14%	12%	17%	19%
Real	17%	5%	9%	9%
Quicktime	5%	8%	6%	5%
WM	8%	7%	3%	6%
Don't know	60%	62%	54%	52%

Attribute	Oct-99	Jan-00	Jul-00	Sep-00
Best video quality				
Quicktime	10%	13%	12%	11%
WM	7%	8%	7%	11%
Real	7%	4%	6%	7%
MP3	4%	6%	8%	7%
Don't know	66%	67%	60%	58%

Source: Digital Media Consumer Tracker 9/00

Gary Schare

Media Metrix Reach/Unique Users

Home	Media Metrix	Jun-99	Feb-99	Mar-00	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00
Player Reach	Realplayer	21%	24%	26%	29%	31%	31%	31%	31%	30%	
	WMP	21%	20%	20%	28%	20%	21%	22%	21%	21%	
	QT	10%	9%	7%	9%	8%	9%	9%	10%	9%	
	Winamp	4%	4%	5%	5%	6%	6%	7%	6%	6%	
	Napster	na	na	na	4%	4%	6%	6%	9%	3%	
Users (000's)	Realplayer	16,791	18,597	21,515	22,360	24,153	24,221	24,905	25,083	23,872	
	WMP	16,414	15,836	15,145	16,826	16,891	15,982	17,779	16,846	16,397	
	QT	7,955	7,087	5,207	5,135	6,094	6,646	7,120	7,703	6,997	
	Winamp	3,115	3,283	3,311	4,391	4,824	4,862	5,161	5,130	4,747	
	Napster	na	na	1,744	2,897	3,165	4,670	4,936	5,729	5,916	
Player Usage	Realplayer	49%	54%	62%	66%	70%	78%	72%	73%	69%	
	WMP	48%	45%	44%	46%	46%	46%	51%	48%	47%	
	QT	23%	21%	15%	15%	19%	19%	21%	22%	20%	
	Winamp	9%	10%	11%	13%	14%	14%	15%	15%	14%	

Work	Media Metrix	Jan-00	Feb-00	Mar-00	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00
Reach	Realplayer	26%	28%	36%	28%	29%	27%	37%	39%	34%	
	WMP	29%	25%	24%	23%	20%	19%	25%	26%	24%	
	QT	5%	7%	6%	5%	5%	6%	7%	6%	6%	
	Winamp	4%	4%	4%	3%	5%	5%	5%	6%	5%	
	Napster	na	na	na	na	2%	3%	3%	4%	5%	
Users (000's)	Realplayer	8,691	6,942	9,096	7,263	7,738	7,166	9,941	10,346	9,283	
	WMP	7,017	6,211	6,010	5,911	5,412	4,999	7,092	6,960	5,405	
	QT	1,174	1,796	1,562	1,407	1,368	1,611	1,903	1,560	2,042	
	Winamp	1,079	1,031	960	781	1,213	1,105	1,448	1,611	1,421	
	Napster	na	na	na	na	417	763	667	1,179	1,356	
Player Usage	Realplayer	59%	62%	71%	63%	68%	67%	70%	71%	60%	
	WMP	50%	47%	47%	62%	47%	47%	50%	48%	47%	
	QT	10%	14%	12%	12%	12%	14%	13%	11%	15%	
	Winamp	9%	8%	7%	7%	11%	10%	10%	10%	10%	
	Napster	na	na	na	na	na	7%	6%	8%	10%	

Source: Media Metrix 10/00

Gary Schare

Share of New Content

U.S. Only

Real   61%

WM   38%

QuickTime   1%

International

Real   60%

WM   37%

QuickTime   3%

Top 100 Media Metrix

domains US:

Winning   22%

Fighting   25%

Losing   53%

International - Top 100 Strategic Partners

Winning   30%

Fighting   18%

Losing   52%

Nielsen NetRatings Format Reach

	Nielsen/Netratings	Jan-00	Feb-00	Mar-00	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00
Format Reach	Real Streaming	26%	27%	27%	29%	30%	30%	31%	31%	30%	38%
	WM Streaming	10%	9%	11%	12%	12%	12%	12%	12%	12%	13%
	QT Streaming	9%	9%	9%	9%	8%	9%	9%	9%	8%	8%
Users (000's)	Real Streaming	19.5	20.4	21.6	23.8	24.5	26.3	27.1	27.3	27.1	27.1
	WM Streaming	7.4	7.2	8.6	9.4	10.3	9.5	10.9	10.7	11.0	12.2
	QT Streaming	7.0	7.1	7.5	7.2	7.0	7.5	8.1	7.9	7.1	7.4

Source: Nielsen NetRatings 10/00

Gary Schare

Streaming Technology in LORGs

▸ **Adoption of streaming technology (any brand) nears 20% among LORGs**
  » *Streaming technology used on both Internet and inTRAnet*
  » *Opportunity among both current users and non-users*
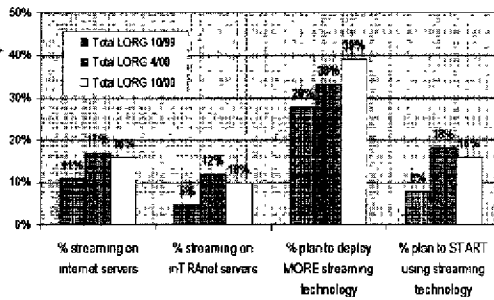
Share Among Streaming LORGs

Adoption of Streaming Technology

- Total LORG 10/99
- Total LORG 4/00
- Total LORG 10/00

% streaming on internet servers | % streaming on inTRAnet servers | % plan to deploy MORE streaming technology | % plan to START using streaming technology

Other: 20%
Use WM Only 39%
Use WM AND Real 29%
Use Real Only 12%
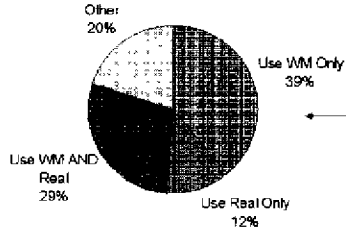
Among those companies using streaming technology today, WMT share exceeds Real
» *Total share for Real 41% compared to 68% for WMT*

Source: LORG Digital Media Tracker, 10/00

Gary Schare

Catherine Ward

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Global Handset Segment Share

Global Handset Vendor Market Share

□ Nokia
■ Motorola
□ Ericsson
□ Panasonic
■ Alcatel
□ Siemens
■ NEC
□ Others
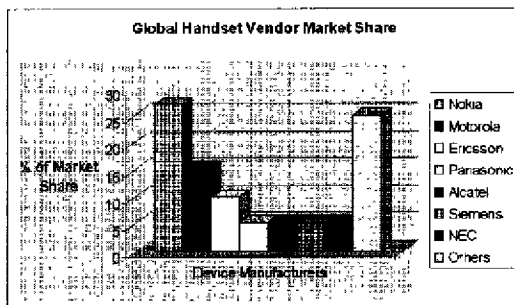
Company	% share of market	Number of handsets sold (millions)
Nokia	27 2	26 95
Motorola	15 4	15 2
Ericsson	10 2	10 1
Panasonic	5 6	5 5
Alcatel	5 5	5 47
Siemens	5 5	5 42
NEC	5 5	5 41
Others	25 1	24 9
	TOTAL	98 95

Regional variations

There are significant regional variations in market share, including

Germany – Nokia 35%, Siemens 35%, others in single digit %s

Japan – dominated by Japanese manufacturers, Matsushita (Panasonic), NEC Sharp, Toshiba, Kyocera etc Nokia, Ericsson have virtually no presence, but are beginning to target the market by developing I-mode handsets for NTT DoCoMo

Korea – dominated by Korean manufacturers, Samsung, LG, Hyundai Again Nokia has virtually no market share

Source Dataquest report September 2000, figures for Q2 2000

Kurt Buecheler

Localization Summary

▶ 12 Player languages
- ⇥ *English*
- ⇥ *Spanish*
- ⇥ *French*
- ⇥ *Italian*
- ⇥ *German*
- ⇥ *Japanese*
- ⇥ *Korean*
- ⇥ *Dutch*
- ⇥ *Swedish*
- ⇥ *Portuguese*
- ⇥ *Trad. Chinese*
- ⇥ *Simpl. Chinese*

▸ 23% of total net revenue comes from Int'l operations
- ⇥ 13 % Europe
- ⇥ 6% Asia

▸ Real localizes the Player 8 unto 11 languages
▸ Supports a wide variety of platforms
▸ No server or encoding tools are localized

▶ 12 Media Guides
- ⇥ *USA*
- ⇥ *Europe*
- ⇥ *France*
- ⇥ *Germany*
- ⇥ *Italy*
- ⇥ *Netherlands*
- ⇥ *Spain*
- ⇥ *Sweden*
- ⇥ *Brazil*
- ⇥ *Mexico*
- ⇥ *Japan*
- ⇥ *Australia*

▸ Real supported platforms:
- ⇥ *Win95*
- ⇥ *Win 98*
- ⇥ *Win 2000*
- ⇥ *WinMe*
- ⇥ *NT 4*
- ⇥ *Mac (English only)*

▶ 10 Int'l Websites
- ⇥ *USA*
- ⇥ *UK/Europe*
- ⇥ *France*
- ⇥ *Germany*
- ⇥ *Italy*
- ⇥ *Netherlands*
- ⇥ *Spain*
- ⇥ *Sweden*
- ⇥ *Australia*
- ⇥ *Japan*

▸ Intl websites go multiple layers deep, but all end in English pages
▸ Mixed English and local language content
▸ Easy to find content and download Player, both fee and free
▸ 2500 international radio stations

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David Caulton

Dagmars

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Current Litigation

Outstanding Cases:

State Cases

	CA	IL	NY	FL	WA	Other	Total
NA	0	0	0	0	1	0	1
Total Cases	0	0	0	0	1	0	1

Federal Cases

Securities	Fraud	Patent	Copyright	Trademark	Other Statutory	Other Contract	Misc Cases
0	0	1	1	1	13	0	4

Summaries of Noteworthy Cases:

- RealNetworks vs. Streambox – In December 1999, Real filed suit against Streambox alleging Digital Millennium Copyright Act violations based on three Streambox products that circumvented Real's copy protections for its formats. Streambox countered that Real was attempting to monopolize streaming media. The federal court in WA prohibited Streambox's sale of VCR and Ferret products, but found that Ripper (which converted Real's formats to other formats) could have uses that didn't violate the Act. The case was dismissed in September 2000.

- RealNetworks Privacy Litigation – Eleven consumer class actions alleging that Real illicitly collected information about users without their knowledge or consent. In May 2000, Court stayed the litigation upholding the EULA requirements that parties resolve such disputes before an arbitrator.

Total Federal	20

Grand Total	21

Rich Lappenbusch
Chris Meyers

RealPartner Program - Partner Requirements

RealPartner Program Recent Notable Items.

- Added a searchable online partner database
- Now charge for all but the most basic level of membership
- Added membership requirements of two reference sites
- Improved web presence - well organized information
- Third party banner ads on partner pages
- Partner application now mirrors WMSP
- Level 4 partners assigned account manager

Partner Responsibilities

	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
Demographic information	○	○	○	○
Annual fee		$195	$495	$495
Capable of delivering product or service		○	○	○
Annual tech training			○	○
Annual marketing training			○	○
Use RealNetworks media on site			○	○
RealPartner logo on site			○	○
Two reference accounts				○
Potential for customized obligations per separate agreement			○	○
Qualification determined by RealNetworks in its sole discretion			○	○

Gary Schare

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Training

Training Classes
- Two Courses
  - RealSystem Content Creation (3 days, $1495)
  - RealSystem Administration (2 days, $1095)
- Online Registration
- Classes held in Seattle at Real's Offices
- Hands on / instructor led
- Max 20 students per class
- Pentium III workstations

RealSystem Content Creation Syllabus

This course is for audio and video production professionals, new media consultants, as well as content authors, Webmasters and training content developers. You'll learn about content creation and content authoring issues surrounding streaming media, and gain a solid understanding of RealNetworks streaming technology.

Skills You'll Acquire

- Understand RealSystem architecture
- Knowledge of required and optimal hardware components for media production
- Acquire source content
- Encoding clean broadband video
- Use RealProducer Plus, RealPresenter Plus and RealSlideShow Plus
- Archive RealMedia
- Publish RealMedia
- Invoke a stand alone player from HTML
- Create a play list with a RAM file
- Implement RealPlayer embedded plug-ins
- Author RealPix, RealText, RealFlash and SMIL files
- Present a strategically planned SMIL presentation

RealNetworks RealSystem Administration Syllabus

This course is for IT professionals, Webmasters and networking consultants. You'll gain a thorough knowledge of RealServer administration and the qualifications to deploy and maintain a standard streaming media server.

Upon completion of each course, students will be able to:

- Understand RealSystem architecture
- Install RealServer
- Monitor RealServer activity
- Configure RealServer options
- Deliver on-demand prime features
- Deliver live Webcasts
- Read RealServer Activity Reports
- Enable multicasting for Webcasts
- Set up splitting servers for live video streams
- Authenticate RealServer visitors

Gary Schare

JimRein

Cost of Streaming Ads

			Ad Revenues May Not Cover Costs to Deliver Streaming Content			
Streaming Content Delivered	Type	Length (Seconds)	Speed (KBPS) *	Size (MB) *	Cost Per MB**	Cost Per 1,000 Users
VHS-quality video	3 min. + 20 second ad	200	0.300	7.5	$0.01	$75.00
Low-quality video	3 min + 20 second ad	200	0.100	2.5	$0.01	$25.00
Internet radio – CD quality	2.5 songs + 20 second ad	470	0.080	4.7	$0.01	$47.00
Internet radio – FM quality	2.5 songs + 20 second ad	470	0.024	1.4	$0.01	$14.10

*There are 8 bits per byte. Therefore 300 kilobits per second equals 37.5 kilobytes per second. **Average cost to content providers to deliver a megabyte of data. Source: The Standard

Kurt Buecheler

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RN/MS **CURRENT PRODUCT** Comparison

▸ **Where MS wins**

   ▸▸ *Audio Codec Quality*
- *WMA is hands down win across all bitrates*

   ▸▸ *DRM*
- *RN's third party add-ons less than impressive*

   ▸▸ *Screen Capture*
- *Codec and screen capture app*

   ▸▸ *All-in-one Media Player*
- *RN requires three apps*

   ▸▸ *Browser integration*
- *More powerful embedded control, Scripted events can be more powerful than SMIL*

   ▸▸ *Server Scalability and reliability*

   ▸▸ *Playlist support*

▸ **Where we tie**

   ▸▸ *Video Codec Quality*
- *They may have slight advantage at low bitrates only*

   ▸▸ *Authentication and Authorization models*

   ▸▸ *Skins, visualizations, media management*

▸ **Where RN wins**

   ▸▸ *Synchronized media*
- *They are seen as 'owning' SMIL*

   ▸▸ *Multi-platform*
- *Mac Player, Linux server*

   ▸▸ *Ease of use*
- *Server and encoder*

   ▸▸ *Server administration, monitoring, logging*

   ▸▸ *Integration of third party apps and plug-ins*

   ▸▸ *Standards Based Networking*
- *RTSP, RTP*

   ▸▸ *Push distribution*

> **Product features are important ... but currently the major battle is in marketing and bus dev.**

DELETE THIS BY 12/7

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DEMONSTRATIONS

David Caulton

The Real Platform – Compl ete Webcasting Server Solution

Demo – realserver admin, linux player

- A mac with a firewire camera is doing a *live broadcast*.
- Distributed by a *Linux server.*
- The server administration client is built from html and Java.
- Very powerful, rich clients on all platforms
- ...Real everywhere, Windows nowhere.
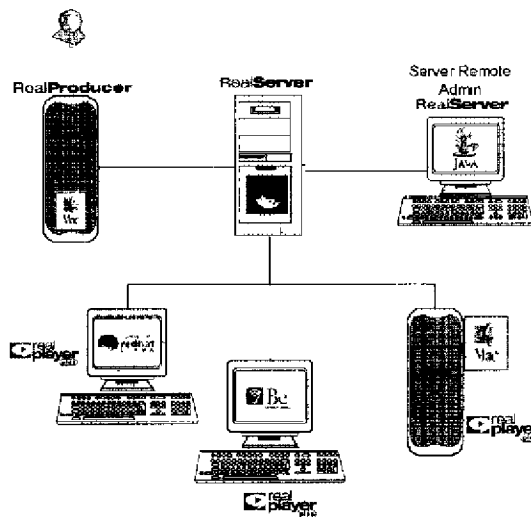
David Caulton

This centers around the webcasting lan over in the corner of the room

You care because this demonstrates that cross-platform media isn't vaporware – Real makes it not only possible, but optimal.

Key points:

1. You don't need windows for any aspect of the media world

2. There is no degradation in product quality in these scenarios

3. Clients are strongest on all platforms .very rich media content (Flash, SMIL, etc .) look the same everwhere.

4. Note that both live and on-demand are here

5. Note that QuickTime is streamed from the Real server to QuickTime clients.

6. Note Java administration client

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Benefits of this cross-platform strategy

- **Server** – Servers on all platforms
  - *Ride the unix bandwagon*
  - *increase cost of switching (e.g., going from real - msft is easier on windows than linux)*
  - *Enable Sun and Linux dedicated shops*

- **Client** – Rich, interactive media in the player, everywhere
  - *They have created the most attractive broadcasting and advertising platform.*
  - *Reach all possible users (win, mac, unix)*
  - *You really can write once on the most popular formats (Flash, Real), run everywhere - apparently with little testing.*
  - *Positions them for new embedded devices (e.g., Netpliance iOpener)*

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How the consumer gets "Real"ed

▸ **it's on my computer**
  ⇒ *Comes with AOL, AT&T @ home*
  ⇒ *Sony, Gateway, etc ..*
  ⇒ *Aggressive bundling with devices.*

▸ **"I need it for cool content"**
  ⇒ *A happy MSN/Mars user goes to abcnews.com…wants to watch a video – Must get Realplayer. Click "get" link…enter Real Land*

Will Florida's Supreme Court decide who is the next President? RealVideo (download RealPlayer)
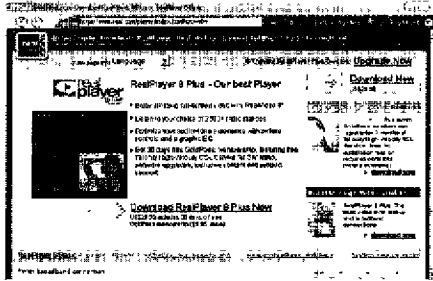
Demo – download and install RealPlayer

David Caulton

You care because it explains how and why users get sucked into Real

1 Most users don't get Real because they want Realplayer..
2. They get it with some other software or service they want
3. Or adoption is driven by content
4. Once you click to download RealPlayer, you get driven relentlessly to download the paid version
5. You also get a bunch more than you bargained for...all download's include other products and services

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The Real Desktop

Spam the desktop with them and their partners

IE gets RN favorite, toolbar icon

MIME types are grabbed en mass

CD player becomes Real Icon

System tray and Quick launch get icons

Start search menu gets an item
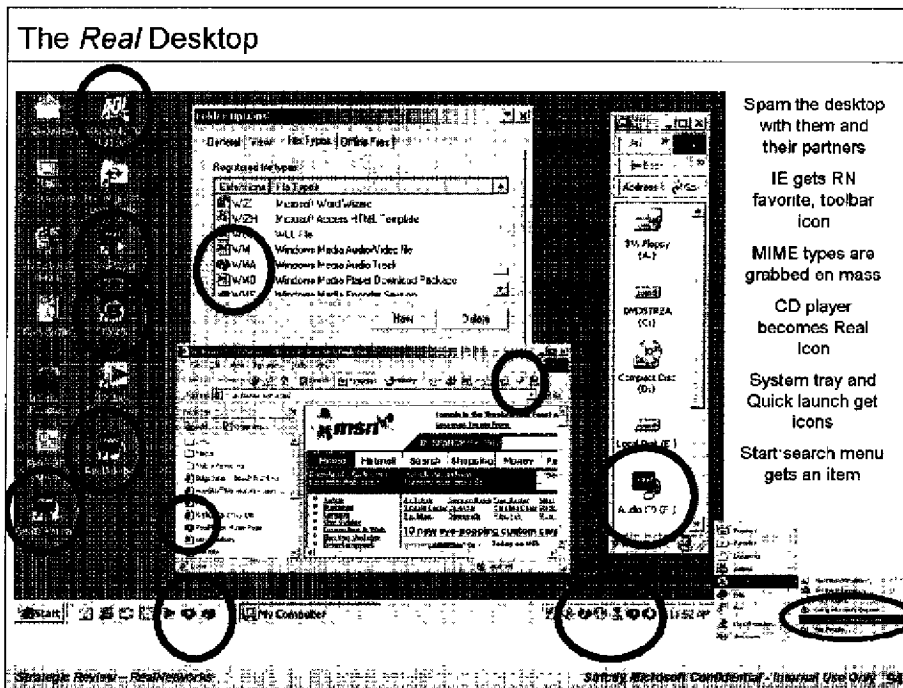
David Caulton

You care because...well, just look what they do to Windows!

1. Note AOL link on desktop
2. Note all the links to products and services on desktop
3. Note quick launch, system tray icons
4. Note MIME types grabbed
5. Note new start/search "media search engine"
6. Nearly all of these lead you to a Real product or service that generates revenue.

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Summary - RealPlayer Download Process

User starts out just wanting Realplayer, but ends up:

•Getting relentless upsell to the $30 player, and more...

• seeing revenue-generating advertisements

•Installing extra software

•And they grab the user experience - **This user will never be more than a couple clicks from Real again**

Demo here is that they user goes to abcnew.com, wants some content. Must dl realplayer

Show that the dl process ends up installing much more than the player....

Next slide will act as a guide to how thoroughly Real has nabbed the user's windows.

Demo - What Real Grabs, and the effect on Windows

- SMIL
- RTSP
- SSM
- Mpeg
- Mp3, mp3 playlists
- Wav
- CD
- .au
- AIFF
- Avl
- .wma

...Pretty much every media type

- They grab, and if anything gets grabbed back, they nag or just autograb back
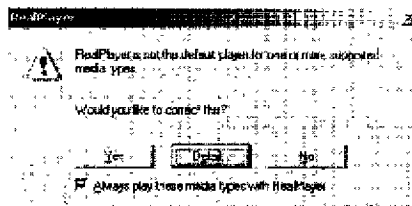
- **As a result, Real owns substantial Windows Interaction.**

Demo – Real owns the media experience

Won't list all the media types, just say they grab everything.

Two demos here:

inserting a CD, up pops RJB

doubleclick on a media file, get Realplayer

Go to a web page from mars, click on a real link from ABCnew.com

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- ▸ **Demos**
  - ▸▸ *playing a CD*
  - ▸▸ *Playing an mp3*
  - ▸▸ *Getting MSN explorer*

Demo - Real owns the windows users' Media experience

Whether from a CD inserted into the drive...

...or a .wma file from windows media player...

...You'll be using RealJB and seeing Real's ads
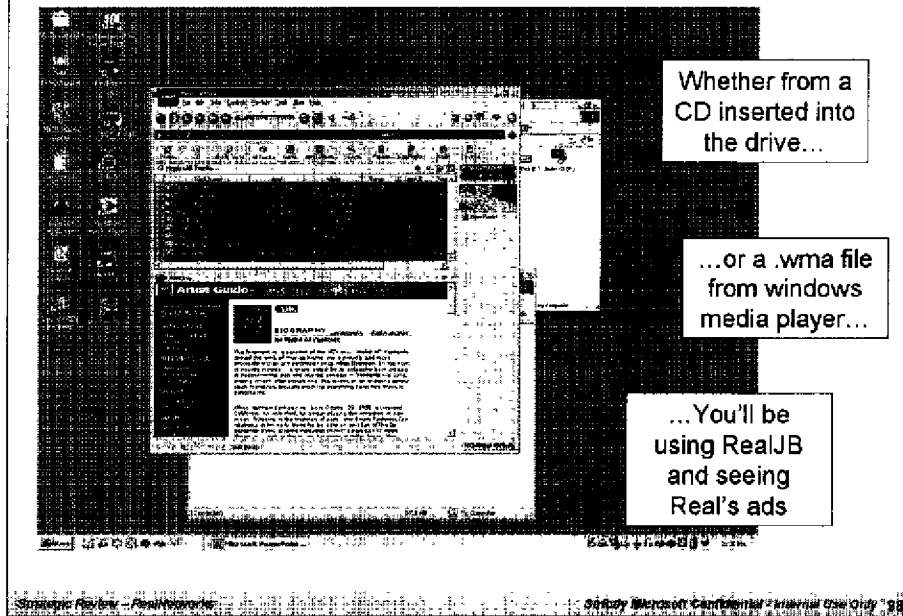
David Caulton

Why do you care? This demo shows how you end up in RealJukebox seeing Real ads whenever you try to do anyting with media

1. Whether it's from inserting a CD
2. Or from clicking on a WMA file
3. Note the artist guide links to Ecommerce partner

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...And Real gets a substantial hunk of the internet experience.
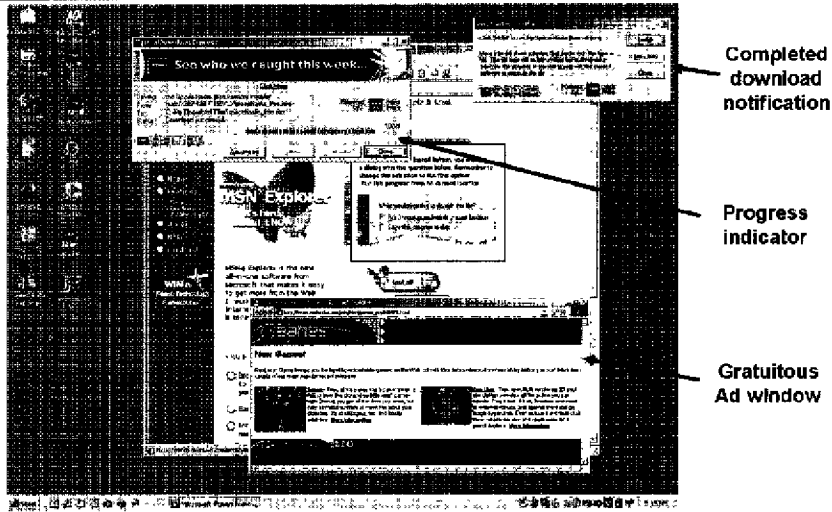
David Caulton

Demo slide...how RealDownload works.

RealDownload

Real is very aggressive about getting RealDownload onto Desktops

What is RealDownload?

For users:

- **Hard to get far with RealNetworks without encountering this freebie – w/ free player, most of their game downloads, etc...**
- **Friendly downloads – ads resume, autoinstall, fixes windows download dialog, caches downloads**
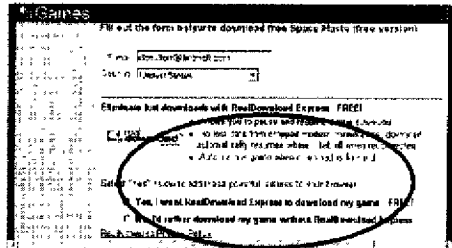
For Real

- **Provides adware real-estate**
- **Tracks user downloads, reports back to Real**

Capitalize on this unique sponsorship to interact with one of the most sought after internet audiences – the elusive "captive, passive" audience.

— RN advertizing brochure

David Caulton

Why do you care? Realdownload is important to Real as a revenue vehicle, and abusive of Windows

1. Users get it because it comes with other stuff
2. But it does ad value – friendly downloads
3. Real gets ad revenue...
4. ...and to track lots about user behavior.
5. Many users hate this, but it's tough to get rid of...

On the privacy topic...

Realnetworks seriously and consistently violates the privacy of their customers.

- ▶ **RealDownload** threatens enterprise security. Sends complete internal address of files on enterprise intranet in the clear.
- ▶ **RJB** has been caught sending private consumer information to RN
- ▶ **Real** has not fixed most of these problems, and has never revealed what they do with all of this very detailed customer information.

RN has never been held accountable for these violations

Why do you care? Real is consistently violating privacy norms.

1. RealDownload threatens enterprise, user security
2. Real Jukebox helps Real utterly profile your media behavior
3. Real ignores these problems and objections.

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Remember ABCnews.com?

> ▸ **Don't need IE, or msn explorer for that – our users
> can just use Real – a very rich media portal**

Demo – RealPlayer the Media Portal

Real – the Portal

<u>Don't need MSN or IE for that anymore</u> – Real provides not just a player, but the media portal...
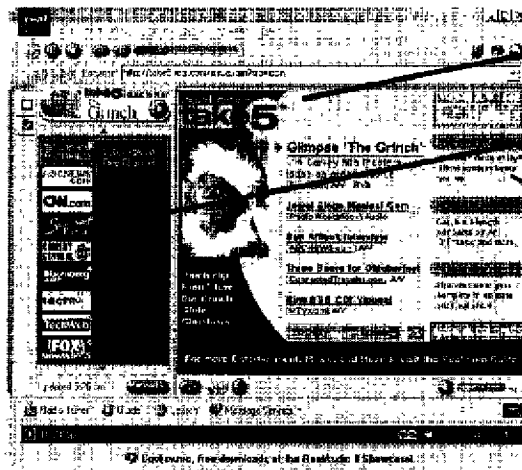
Take 5 – directly to premier partner content

Content bar – specific, personalized content links

But the action is in GoldPass – our user is hooked.

David Caulton

Why do you care? This is realplayer, the center of the Real client strategy

1. Note that the user wanted to simply watch abcnews.com... they've gotten a media portal.
2. Internet Explorer and msn are less convenient as a media portal
3. Take 5 – premiere partners who pay for this space – gets users to the coolest, richest content (and advertising)
4. Content bar – customized on install... the content the user wants, right at their fingertips
5. Goldpass – the center of Real's " net" strategy....

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Demo – Focus on Goldpass

What is goldpass?

▶ GoldPass converts $29 software purchase into $120/yr GoldPass subscribers.

▶ Planning on getting top 1% (1.55million) users hooked in for this

▶ This is also a trojan horse for adware, especially RealDownload

▶ But...right now it's very expensive, and without great benefit

Subscription content – leading with adult PG-13 or R content

Subscription-based Plus Pack – new free software every month

Strategic Review · RealNetworks   Strictly Microsoft Confidential · Internal Use Only 104
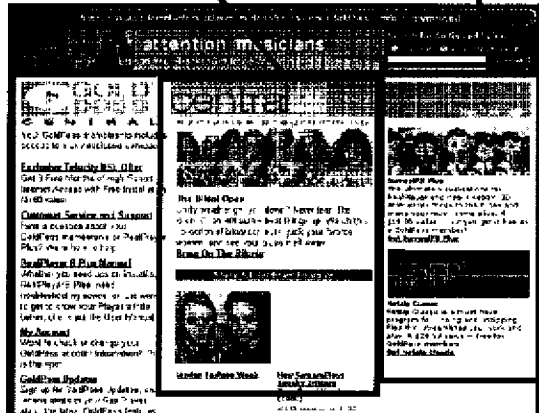
David Caulton

Why do you care? Goldpass is the central Real subscription service.

1. Converts $30 users into $120/yr subscribers
2. Plan to get 1.55 million subscribers
3. You get cool exclusive (adult and lowbrow) content
4. You also get "free" software – some useful, some adware.
5. Now introducing other draws – sweepstakes.

This demo will shown first a Goldpass video featuring bikinis, and then a user downloading a free game.

Demo - Grabbing the media ecommerce experience with Bluematter

bluematter

premium digital music
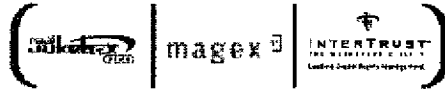
(... | magex | INTERTRUST)

▶ **Intertrust**
  - ▶ **Provides DRM solution (license management, content encryption)**
▶ **Magex**
  - ▶ **Client side wallet, e-commerce clearing house**
  - ▶ **Founded by National Westminster Bank**

▶ **RealNetworks**
  - ▶ **RealJukebox for content playback, playlist management, interface for cover art and lyrics**
▶ **Universal Music Group**
  - ▶ **Content provider and financial backer**

David Caulton
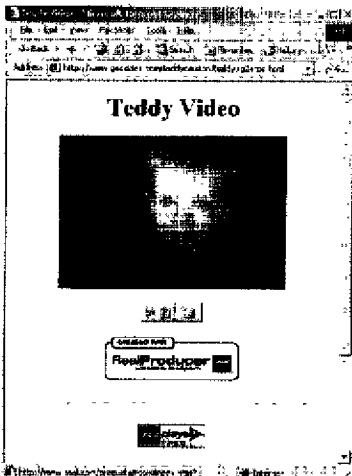
Why do you care

Bluematter Discussion

- **Easy, consistent purchase UI**
- **Secure downloads**
- **Single wallet, very simple to use and recharge**

- **Weaknesses – not fully baked**
  - *One format only*
  - *Showstopper bug – Can't move/backup licenses*
  - *RealJukebox only*
  - *Very limited content selection*

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Demo - Making internet media easy on YAHOO! GeoCities

Teddy Video

Wins for Hosting service:

Eats bandwidth, space...drives upgrades to premium, cool feature

Wins for Real

Viral Marketing - All my relatives now have RealPlayer installed   and the link is to Real Entertainment Center

Platform adoption

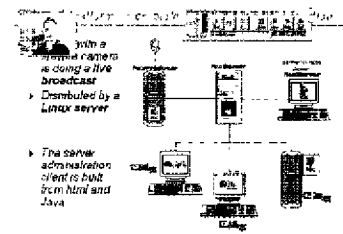*Weaknesses – not very powerful (but do users care?), sloppy execution*

David Caulton

Why do you care? This cool product makes it easy to get video up onto your hosting service and web server.

1. Great for geocities, drives users up to premium subscription
2. Great for Real – gets more players out there, gets more real files on the web
3. Revenue for Real

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RealPresenter Plus demo - enabling content for business

Recording a presentation ..easily creates and serves very rich SMIL content that you need RPlayer to view

Viewing it, live or on demand, p2p from client machine (with lots of RN ads)

-Deeper into the infrastructure of corps – moves ppt files onto their platform one way.

-Drives Player downloads.

-Developed for free by Intel Labs

Cons: *Somewhat cranky to install – dependent on lousy capture devices   Also, the P2P model is scary to enterprise*
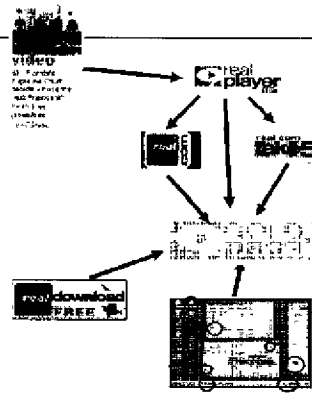
David Caulton

Demo Summary Slide

▸ We've seen how users start out wanting Real content

▸ . but get sucked into more software and services Also how once you have RealPlayer, Real is the media portal - you don't need IE or MSN to get to media so Real gets the advertising and subscription revenue

▸ We've also seen how real is monetizing windows, creating an "adware" Windows and internet user experience – nowhere in windows is more than a click away from RealNetworks portals, placements, advertising and services

▸ With Realpresenter and Yahoo, Real is enabling end-user intranet and internet media creation. in RN platform

▸ While these first three points strengthen the virtuous cycle so Real dominates both player reach and format, we've seen how they're working to make sure nobody needs windows for any part of their media world

Back to the deck

David Caulton