

**RealNetworks, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
**(Unaudited)**

|                                                             | <u>Quarters Ended June 30,</u>        |                | <u>Six Months Ended June 30,</u> |                 |
|-------------------------------------------------------------|---------------------------------------|----------------|----------------------------------|-----------------|
|                                                             | <u>2004</u>                           | <u>2003</u>    | <u>2004</u>                      | <u>2003</u>     |
|                                                             | (in thousands, except per share data) |                |                                  |                 |
| <b>Net revenue</b>                                          | \$ 65,473                             | 49,646         | 125,863                          | 96,512          |
| <b>Cost of revenue</b>                                      | 21,735                                | 14,920         | 43,496                           | 28,704          |
| <b>Loss on content agreement</b>                            | -                                     | -              | 4,938                            | -               |
| Gross profit                                                | <u>43,738</u>                         | <u>34,726</u>  | <u>77,429</u>                    | <u>67,808</u>   |
| <b>Operating expenses:</b>                                  |                                       |                |                                  |                 |
| Research and development                                    | 13,219                                | 11,826         | 25,470                           | 22,733          |
| Sales and marketing                                         | 23,247                                | 19,296         | 45,450                           | 37,599          |
| General and administrative                                  | 8,599                                 | 5,864          | 15,420                           | 11,361          |
| Loss on excess office facilities                            | -                                     | 7,098          | -                                | 7,098           |
| Antitrust litigation (A)                                    | 2,756                                 | -              | 5,077                            | -               |
| Stock-based compensation                                    | 213                                   | 193            | 479                              | 494             |
| Total operating expenses                                    | <u>48,034</u>                         | <u>44,277</u>  | <u>91,896</u>                    | <u>79,285</u>   |
| Operating loss                                              | (4,296)                               | (9,551)        | (14,467)                         | (11,477)        |
| <b>Other income (expense), net:</b>                         |                                       |                |                                  |                 |
| Interest income, net                                        | 800                                   | 1,186          | 1,660                            | 2,451           |
| Equity in net loss of MusicNet                              | (1,019)                               | (1,394)        | (2,134)                          | (3,125)         |
| Impairment of equity investments (B)                        | -                                     | -              | -                                | (424)           |
| Other, net                                                  | 10                                    | 209            | 100                              | 265             |
| Other income (expense), net                                 | <u>(209)</u>                          | <u>1</u>       | <u>(374)</u>                     | <u>(833)</u>    |
| Loss before income taxes                                    | (4,505)                               | (9,550)        | (14,841)                         | (12,310)        |
| Income tax provision                                        | <u>(113)</u>                          | <u>(82)</u>    | <u>(215)</u>                     | <u>(160)</u>    |
| Net loss                                                    | <u>\$ (4,618)</u>                     | <u>(9,632)</u> | <u>(15,056)</u>                  | <u>(12,470)</u> |
| Basic and diluted net loss per share                        | <u>\$ (0.03)</u>                      | <u>(0.06)</u>  | <u>(0.09)</u>                    | <u>(0.08)</u>   |
| Shares used to compute basic and diluted net loss per share | 168,846                               | 158,158        | 167,930                          | 157,797         |

(A) Consists of legal fees, personnel costs, public relations and other professional service fees incurred related to antitrust complaints against Microsoft, including proceedings in the European Union.

(B) Relates to other-than-temporary declines in the value of certain equity investments. These charges were recorded to reflect these investments at their estimated fair value.

**RealNetworks, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

|                                                                                      | June 30,<br>2004  | December 31,<br>2003 |
|--------------------------------------------------------------------------------------|-------------------|----------------------|
| (in thousands)                                                                       |                   |                      |
| <b>ASSETS</b>                                                                        |                   |                      |
| Current assets:                                                                      |                   |                      |
| Cash, cash equivalents and short-term investments                                    | \$ 363,227        | 373,593              |
| Trade accounts receivable, net of allowances for doubtful accounts and sales returns | 11,746            | 10,618               |
| Prepaid expenses and other current assets                                            | 9,759             | 8,879                |
| Total current assets                                                                 | 384,732           | 393,090              |
| Equipment and leasehold improvements, at cost:                                       |                   |                      |
| Equipment and software                                                               | 40,891            | 37,110               |
| Leasehold improvements                                                               | 25,777            | 26,085               |
| Total equipment and leasehold improvements                                           | 66,668            | 63,195               |
| Less accumulated depreciation and amortization                                       | 37,088            | 33,258               |
| Net equipment and leasehold improvements                                             | 29,580            | 29,937               |
| Restricted cash equivalents                                                          | 20,151            | 19,953               |
| Investments                                                                          | 38,425            | 34,577               |
| Goodwill, net                                                                        | 119,371           | 97,477               |
| Other intangible assets, net                                                         | 6,634             | 1,065                |
| Other                                                                                | 4,225             | 4,840                |
| <b>Total assets</b>                                                                  | <b>\$ 603,118</b> | <b>580,939</b>       |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|                                                                                               |                   |                |
|-----------------------------------------------------------------------------------------------|-------------------|----------------|
| Current liabilities:                                                                          |                   |                |
| Accounts payable                                                                              | \$ 9,452          | 6,865          |
| Accrued and other liabilities                                                                 | 46,632            | 39,400         |
| Deferred revenue, excluding non-current portion                                               | 30,357            | 31,186         |
| Accrued loss on excess office facilities and content agreement, excluding non-current portion | 7,294             | 4,960          |
| Total current liabilities                                                                     | 93,735            | 82,411         |
| Deferred revenue, excluding current portion                                                   | 1,505             | 4,561          |
| Accrued loss on excess office facilities and content agreement, excluding current portion     | 22,293            | 24,099         |
| Deferred rent                                                                                 | 3,361             | 3,382          |
| Convertible debt                                                                              | 100,000           | 100,000        |
| Total shareholders' equity                                                                    | 382,224           | 366,486        |
| <b>Total liabilities and shareholders' equity</b>                                             | <b>\$ 603,118</b> | <b>580,939</b> |

**RealNetworks, Inc. and Subsidiaries**  
**Supplemental Financial Information**  
(Unaudited)

|                                                | 2004             |               | 2003          |               |               |               |
|------------------------------------------------|------------------|---------------|---------------|---------------|---------------|---------------|
|                                                | Q2               | Q1            | Q4            | Q3            | Q2            | Q1            |
|                                                | (in thousands)   |               |               |               |               |               |
| <b>Net Revenue by Line of Business:</b>        |                  |               |               |               |               |               |
| Consumer products and services (A)             | \$ 53,061        | 46,514        | 41,214        | 36,377        | 33,172        | 32,886        |
| Business products and services (B)             | 12,412           | 13,876        | 12,842        | 15,432        | 16,474        | 13,980        |
| Total net revenue                              | <u>\$ 65,473</u> | <u>60,390</u> | <u>54,056</u> | <u>51,809</u> | <u>49,646</u> | <u>46,866</u> |
| <b>Consumer Products and Services:</b>         |                  |               |               |               |               |               |
| Subscriptions (C)                              | \$ 34,777        | 31,562        | 30,075        | 27,909        | 25,470        | 23,639        |
| E-commerce and other (D)                       | 18,284           | 14,952        | 11,139        | 8,468         | 7,702         | 9,247         |
| Total consumer products and services revenue   | <u>\$ 53,061</u> | <u>46,514</u> | <u>41,214</u> | <u>36,377</u> | <u>33,172</u> | <u>32,886</u> |
| <b>Consumer Products and Services:</b>         |                  |               |               |               |               |               |
| Video, consumer software and other (E)         | \$ 29,129        | 27,494        | 29,347        | 28,572        | 28,830        | 29,645        |
| Music (F)                                      | 15,580           | 12,265        | 7,937         | 4,655         | 1,670         | 831           |
| Games (G)                                      | 8,352            | 6,755         | 3,930         | 3,150         | 2,672         | 2,410         |
| Total consumer products and services revenue   | <u>\$ 53,061</u> | <u>46,514</u> | <u>41,214</u> | <u>36,377</u> | <u>33,172</u> | <u>32,886</u> |
| <b>Net Revenue by Geography:</b>               |                  |               |               |               |               |               |
| United States                                  | \$ 50,949        | 43,963        | 40,175        | 37,660        | 36,009        | 33,769        |
| Rest of world                                  | 14,524           | 16,427        | 13,881        | 14,149        | 13,637        | 13,097        |
| Total net revenue                              | <u>\$ 65,473</u> | <u>60,390</u> | <u>54,056</u> | <u>51,809</u> | <u>49,646</u> | <u>46,866</u> |
| <b>Gross Margin by Line of Business: *</b>     |                  |               |               |               |               |               |
| Consumer products and services                 | 63%              | 58%           | 55%           | 54%           | 61%           | 63%           |
| Business products and services                 | 84%              | 84%           | 83%           | 87%           | 88%           | 89%           |
| Total gross margin                             | 67%              | 64%           | 62%           | 64%           | 70%           | 71%           |
| <b>Subscribers (presented as greater than)</b> |                  |               |               |               |               |               |
| Total **                                       | 1,400            | 1,300         | 1,300         | 1,150         | 1,000         | 1,000         |
| Music                                          | 550              | 450           | 350           | 250           | 150           | 100           |

\*For the quarter ended March 31, 2004, total gross margin excludes loss on content agreement of \$4.9 million. Including the loss on content agreement, total gross margin is 56%

\*\*Total subscribers as of March 31, 2004 reflects the removal of approximately 142,000 subscribers resulting from the non-renewal of the MLB contract

(A) Revenue is derived from consumer digital media subscription services, Real Player Plus and related products, sales and distribution of third party software products, content such as games and music, and advertising

(B) Revenue is derived from media delivery system software, support and maintenance services, broadcast hosting services and consulting services

(C) Revenue is derived from consumer digital media subscription services including: SuperPass, RadioPass, Rhapsody, GamePass and stand-alone subscriptions

(D) Revenue is derived from Real Player Plus and related products, sales and distribution of third party software products, content such as games and music, and advertising

(E) Revenue is derived from RealOne SuperPass subscriptions, RealPlayer Plus and related products, stand-alone subscription services and sales and distribution of third party software products

(F) Revenue is derived from RadioPass and Rhapsody subscription services, sales of music content and advertising from our music related web sites

(G) Revenue is derived from the GamePass subscription service, sales of games and advertising generated from our games and game related Web sites

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**Supplemental Financial Information**  
(Unaudited)

A reconciliation of Generally Accepted Accounting Principles ("GAAP") net loss to loss before interest, taxes, depreciation, amortization and stock compensation ("EBITDA") and EBITDA excluding antitrust litigation and loss on content agreement is as follows:

|                                                                     | Quarter Ended<br>June 30,<br>2004 | Quarter Ended<br>March 31,<br>2004 |
|---------------------------------------------------------------------|-----------------------------------|------------------------------------|
|                                                                     | (in thousands)                    |                                    |
| Net loss in accordance with GAAP                                    | \$ (4,618)                        | (10,438)                           |
| Interest income                                                     | (800)                             | (860)                              |
| Taxes                                                               | 113                               | 102                                |
| Depreciation, amortization and stock compensation                   | 3,810                             | 3,648                              |
| EBITDA                                                              | (1,495)                           | (7,548)                            |
| Antitrust litigation                                                | 2,756                             | 2,321                              |
| Loss on content agreement                                           | -                                 | 4,938                              |
| EBITDA excluding antitrust litigation and loss on content agreement | \$ 1,261                          | (289)                              |

This reconciliation has been provided as a performance measure, as the Company uses EBITDA and EBITDA excluding antitrust litigation expense on an ongoing basis to track and assess its financial performance. The Company has calculated EBITDA excluding loss on content agreement because it believes that the loss on content agreement is an item that does not reflect the ongoing financial operations of the Company's business.