

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

	<u>Quarters Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2006	2005	2006	2005
	(in thousands, except per share data)			
Net revenue	\$ 93,676	\$ 82,233	\$ 269,687	\$ 241,491
Cost of revenue	<u>28,389</u>	<u>24,695</u>	<u>81,788</u>	<u>74,273</u>
Gross profit	<u>65,287</u>	<u>57,538</u>	<u>187,899</u>	<u>167,218</u>
Operating expenses:				
Research and development	18,344	16,354	55,127	45,381
Sales and marketing	37,560	30,745	111,604	93,809
General and administrative	14,043	7,037	41,586	21,120
Loss on excess office facilities (A)	-	-	738	-
Subtotal operating expenses	<u>69,947</u>	<u>54,136</u>	<u>209,055</u>	<u>160,310</u>
Antitrust litigation expenses (benefit) (B)	<u>(61,861)</u>	<u>3,531</u>	<u>(159,554)</u>	<u>11,925</u>
Total operating expenses, net	<u>8,086</u>	<u>57,667</u>	<u>49,501</u>	<u>172,235</u>
Operating income (loss)	57,201	(129)	138,398	(5,017)
Other income (expense), net:				
Interest income, net	10,618	2,904	27,978	7,499
Equity in net loss of MusicNet	-	-	-	(1,068)
Gain on sales of equity investments	-	11,740	2,286	19,330
Other, net	<u>242</u>	<u>124</u>	<u>432</u>	<u>(276)</u>
Other income, net	10,860	14,768	30,696	25,485
Income before income taxes	68,061	14,639	169,094	20,468
Income tax provision	<u>(25,908)</u>	<u>(3,457)</u>	<u>(63,180)</u>	<u>(3,763)</u>
Net income	<u>\$ 42,153</u>	<u>\$ 11,182</u>	<u>\$ 105,914</u>	<u>\$ 16,705</u>
Basic net income per share	<u>\$ 0.26</u>	<u>\$ 0.07</u>	<u>\$ 0.66</u>	<u>\$ 0.10</u>
Diluted net income per share	<u>\$ 0.24</u>	<u>\$ 0.06</u>	<u>\$ 0.59</u>	<u>\$ 0.09</u>
Shares used to compute basic net income per share	160,578	170,797	160,467	170,761
Shares used to compute diluted net income per share	178,913	184,180	178,551	184,276

(A) The loss on unoccupied excess office facilities represents an increase in the estimate of the loss from building operating costs not expected to be recovered.

(B) Consists of amounts received under the Settlement and Commercial agreements with Microsoft, net of certain legal fees, personnel costs, public relations and other professional service fees incurred related to antitrust complaints against Microsoft, including proceedings in the European Union.

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

	September 30, 2006	December 31, 2005
(in thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 693,057	\$ 651,971
Short-term investments	151,745	129,356
Trade accounts receivable, net of allowances for doubtful accounts and sales returns	24,481	16,721
Deferred tax assets, net, current portion	7,046	54,204
Prepaid expenses and other current assets	11,488	11,933
Total current assets	887,817	864,185
Equipment, software and leasehold improvements, at cost:		
Equipment and software	65,551	56,402
Leasehold improvements	29,139	27,964
Total equipment, software and leasehold improvements	94,690	84,366
Less accumulated depreciation and amortization	60,235	51,228
Net equipment, software and leasehold improvements	34,455	33,138
Restricted cash equivalents	17,300	17,300
Equity investments	26,269	46,163
Other assets	4,177	2,397
Deferred tax assets, net, non-current portion	15,967	19,147
Goodwill	132,789	123,330
Other intangible assets, net	7,386	7,337
Total assets	\$ 1,126,160	\$ 1,112,997
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,905	\$ 11,397
Accrued and other liabilities	72,105	112,340
Deferred revenue, current portion	25,469	25,021
Accrued loss on excess office facilities, current portion	4,053	4,623
Total current liabilities	116,532	153,381
Deferred revenue, non-current portion	340	276
Accrued loss on excess office facilities, non-current portion	11,323	13,393
Deferred rent	4,472	4,018
Convertible debt	100,000	100,000
Other long-term liabilities	1,679	196
Total liabilities	234,346	271,264
Total shareholders' equity	891,814	841,733
Total liabilities and shareholders' equity	\$ 1,126,160	\$ 1,112,997

RealNetworks, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2006	2005
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 105,914	\$ 16,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,480	11,869
Stock-based compensation	12,332	109
Equity in net losses of MusicNet	-	1,068
Changes in accrued loss on excess office facilities and content agreement	(2,640)	(6,230)
Loss on disposal of equipment	76	250
Gain on sales of equity investments	(2,286)	(19,330)
Deferred income taxes	56,508	3,324
Other	73	48
Net change in certain operating assets and liabilities, net of balances from businesses acquired during the year	(48,496)	6,127
Net cash provided by operating activities	133,961	13,940
Cash flows from investing activities:		
Purchases of equipment, software and leasehold improvements	(9,316)	(10,728)
Purchases of intangible assets	-	(1,000)
Purchases of short-term investments	(177,868)	(121,540)
Proceeds from sales and maturities of short-term investments	156,006	127,790
Decrease in restricted cash equivalents	-	2,095
Proceeds from sales of equity investments	2,286	19,530
Purchases of cost based investments	(834)	(647)
Payment of acquisition costs, net of cash acquired	(7,086)	(14,705)
Net cash provided by (used in) investing activities	(36,812)	795
Cash flows from financing activities:		
Net proceeds from sale of common stock under employee purchase plan and exercise of stock options	41,976	4,926
Repayment of long-term note payable	-	(648)
Repurchase of common stock	(98,869)	(29,275)
Net cash used in financing activities	(56,893)	(24,997)
Effect of exchange rate changes on cash and cash equivalents	830	(492)
Net decrease in cash and cash equivalents	41,086	(10,754)
Cash and cash equivalents at beginning of period	651,971	219,426
Cash and cash equivalents at end of period	\$ 693,057	\$ 208,672

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

	2006			2005			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(in thousands)						
Net Revenue by Line of Business: *							
Consumer products and services (A)	\$ 82,497	\$ 77,442	\$ 74,811	\$ 73,415	\$ 71,750	\$ 70,593	\$ 64,206
Technology products and solutions (B)	11,179	11,967	11,791	10,153	10,483	12,093	12,366
Total net revenue	<u>\$ 93,676</u>	<u>\$ 89,409</u>	<u>\$ 86,602</u>	<u>\$ 83,568</u>	<u>\$ 82,233</u>	<u>\$ 82,686</u>	<u>\$ 76,572</u>
Consumer Products and Services: *							
Subscriptions (C)	\$ 50,878	\$ 47,452	\$ 47,832	\$ 47,508	\$ 47,347	\$ 47,821	\$ 44,400
Media properties (D)	13,883	11,546	9,484	10,224	9,606	8,986	6,033
E-commerce and other (E)	17,736	18,444	17,495	15,683	14,797	13,786	13,773
Total consumer products and services revenue	<u>\$ 82,497</u>	<u>\$ 77,442</u>	<u>\$ 74,811</u>	<u>\$ 73,415</u>	<u>\$ 71,750</u>	<u>\$ 70,593</u>	<u>\$ 64,206</u>
Consumer Products and Services: *							
Music (F)	\$ 30,375	\$ 30,118	\$ 28,918	\$ 27,760	\$ 26,193	\$ 24,933	\$ 22,883
Media software and services (G)	29,586	26,127	27,277	29,914	30,858	32,012	29,134
Games (H)	22,536	21,197	18,616	15,741	14,699	13,648	12,189
Total consumer products and services revenue	<u>\$ 82,497</u>	<u>\$ 77,442</u>	<u>\$ 74,811</u>	<u>\$ 73,415</u>	<u>\$ 71,750</u>	<u>\$ 70,593</u>	<u>\$ 64,206</u>
Net Revenue by Geography:							
United States	\$ 69,433	\$ 66,542	\$ 65,700	\$ 65,177	\$ 63,478	\$ 63,443	\$ 57,757
Rest of world	24,243	22,867	20,902	18,391	18,755	19,243	18,815
Total net revenue	<u>\$ 93,676</u>	<u>\$ 89,409</u>	<u>\$ 86,602</u>	<u>\$ 83,568</u>	<u>\$ 82,233</u>	<u>\$ 82,686</u>	<u>\$ 76,572</u>
Gross Margin by Line of Business:							
Consumer products and services	68%	68%	67%	70%	68%	68%	65%
Technology products and solutions	81%	81%	83%	81%	82%	83%	82%
Total gross margin	70%	70%	69%	71%	70%	70%	68%

Subscribers (presented as greater than) **

Total	2,450	2,400	2,400	2,250	2,200	2,000	1,850
Music	1,650	1,625	1,575	1,425	1,300	1,150	975

*Reclassifications were made to the presentation of 2005 data to conform to the presentation for 2006

**Beginning the quarter ended March 31, 2005, total and music subscribers reflect the inclusion of subscribers that registered for the Comcast Rhapsody Radio Plus service

(A) Revenue is derived from consumer digital media subscription services, RealPlayer 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 all advertising and through the distribution of third party products

(E) Revenue is derived from RealPlayer Plus and related products, sales of third party software products, and content such as games and music

(F) Revenue is derived from Rhapsody and RadioPass subscription services and sales of music content, advertising generated from our music and music related websites and the distribution of third party products

(G) Revenue is derived from SuperPass subscriptions, RealPlayer Plus and related products, stand-alone subscription services, sales and distribution of third party software products and advertising related to our non-game and non-music related web properties

(H) Revenue is derived from the GamePass subscription service, sales of games, advertising generated from our games and game-related websites and the distribution of third party products

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

A reconciliation of net income in accordance with GAAP to total adjusted net income (loss) is as follows:

	Quarters Ended						
	September 30,	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,
	2006	2006	2006	2005	2005	2005	2005
	(in thousands, except per share data)						
Net income in accordance with GAAP	\$ 42,153	\$ 38,878	\$ 24,883	\$ 295,640	\$ 11,182	\$ 4,709	\$ 814
Stock based compensation	5,021	3,673	3,638	19	25	48	36
Loss (gain) on equity investments	-	(2,286)	-	266	(11,740)	(7,590)	-
Expenses (benefit) related to antitrust litigation:							
Income	(62,000)	(58,000)	(40,000)	(478,571)	-	-	-
Expenses	1,000	997	971	50,850	3,531	4,650	3,744
Charitable contributions	1,889	1,805	1,225	14,786	-	-	-
Tax impact of proforma items	20,587	19,732	12,717	113,325	3,324	-	-
Total adjusted net income (loss)	<u>\$ 8,650</u>	<u>\$ 4,799</u>	<u>\$ 3,434</u>	<u>\$ (3,685)</u>	<u>\$ 6,322</u>	<u>\$ 1,817</u>	<u>\$ 4,594</u>
GAAP basic net income per share	\$ 0.26	\$ 0.24	\$ 0.15	\$ 1.76	\$ 0.07	\$ 0.03	\$ 0.00
GAAP diluted net income per share	\$ 0.24	\$ 0.22	\$ 0.14	\$ 1.61	\$ 0.06	\$ 0.03	\$ 0.00
Adjusted basic net income (loss) per share	\$ 0.05	\$ 0.03	\$ 0.02	\$ (0.02)	\$ 0.04	\$ 0.01	\$ 0.03
Adjusted diluted net income per share	\$ 0.05	\$ 0.03	\$ 0.02	n/a	\$ 0.03	\$ 0.01	\$ 0.02
Shares used to compute basic net income (loss) per share	160,578	159,938	160,887	167,573	170,797	171,393	170,947
Shares used to compute diluted net income per share	178,913	177,337	176,923	183,728	184,180	184,816	184,686

A reconciliation of GAAP cost of revenue and operating expenses for the quarters ended September 30, 2006 and 2005 to adjusted cost of revenue and operating expenses is as follows:

	Quarter ended September 30, 2006			
	As Reported	Stock-Based Compensation	Antitrust Litigation Related	Adjusted
	(in thousands)			
Expenses in accordance with GAAP				
Cost of revenue	\$ 28,389	\$ (57)	\$ -	\$ 28,332
Operating expenses:				
Research and development	\$ 18,344	\$ (1,878)	\$ -	\$ 16,466
Sales and marketing	37,560	(1,920)	-	35,640
General and administrative	14,043	(1,166)	(2,750)	10,127
Antitrust litigation benefit	(61,861)	-	61,861	-
Total adjusted operating expenses, net	\$ 8,086	\$ (4,964)	\$ 59,111	\$ 62,233

	Quarter ended September 30, 2005			
	As Reported	Stock-Based Compensation	Antitrust Litigation Related	Adjusted
	(in thousands)			
Expenses in accordance with GAAP				
Cost of revenue	\$ 24,695	\$ -	\$ -	\$ 24,695
Operating expenses:				
Research and development	\$ 16,354	\$ (20)	\$ -	\$ 16,334
Sales and marketing	30,745	-	-	30,745
General and administrative	7,037	(5)	-	7,032
Antitrust litigation expenses	3,531	-	(3,531)	-
Total adjusted operating expenses, net	\$ 57,667	\$ (25)	\$ (3,531)	\$ 54,111

Forward Looking Guidance

A reconciliation of GAAP net income per diluted share guidance for the quarter and the full year ending December 31, 2006 to adjusted net income per diluted share guidance is as follows:

	Quarter Ending December 31, 2006		Year Ending December 31, 2006	
	Low	High	Low	High
Net Income per diluted share in accordance with GAAP	\$ 0.18	\$ 0.21	\$ 0.77	\$ 0.80
Intangible amortization related to WiderThan acquisition	0.01	0.01	0.01	0.01
Antitrust litigation related benefit, net	(0.33)	(0.33)	(1.18)	(1.18)
Stock-based compensation	0.03	0.03	0.10	0.10
Gains on sales of equity investments	-	-	(0.01)	(0.01)
Tax effect of above proforma items	0.11	0.11	0.40	0.40
Total adjusted net income per diluted share	<u>\$ 0.00</u>	<u>\$ 0.03</u>	<u>\$ 0.09</u>	<u>\$ 0.12</u>