

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands, except per share data)			
Net revenue	\$ 82,233	\$ 68,310	\$ 241,491	\$ 194,173
Cost of revenue	24,695	24,786	74,273	68,282
Loss on content agreement	-	-	-	4,938
Gross profit	<u>57,538</u>	<u>43,524</u>	<u>167,218</u>	<u>120,953</u>
Operating expenses:				
Research and development	16,334	13,046	45,296	38,516
Sales and marketing	30,745	24,721	93,809	70,171
General and administrative	7,032	7,968	21,096	23,388
Loss on excess office facilities (A)	-	866	-	866
Antitrust litigation (B)	3,531	2,974	11,925	8,051
Stock-based compensation	25	145	109	624
Total operating expenses	<u>57,667</u>	<u>49,720</u>	<u>172,235</u>	<u>141,616</u>
Operating loss	(129)	(6,196)	(5,017)	(20,663)
Other income (expense), net:				
Interest income, net	2,904	1,190	7,499	2,850
Equity in net loss of MusicNet	-	(1,262)	(1,068)	(3,396)
Impairment of equity investments (C)	-	(450)	-	(450)
Gain on sale of equity investments	11,740	-	19,330	-
Other, net	124	(109)	(276)	(9)
Other income (expense), net	<u>14,768</u>	<u>(631)</u>	<u>25,485</u>	<u>(1,005)</u>
Income (loss) before income taxes	14,639	(6,827)	20,468	(21,668)
Income tax provision (D)	<u>(3,457)</u>	<u>(142)</u>	<u>(3,763)</u>	<u>(357)</u>
Net income (loss)	<u>\$ 11,182</u>	<u>\$ (6,969)</u>	<u>\$ 16,705</u>	<u>\$ (22,025)</u>
Basic net income (loss) per share	<u>\$ 0.07</u>	<u>\$ (0.04)</u>	<u>\$ 0.10</u>	<u>\$ (0.13)</u>
Diluted net income (loss) per share	<u>\$ 0.06</u>	<u>\$ (0.04)</u>	<u>\$ 0.09</u>	<u>\$ (0.13)</u>
Shares used to compute basic net income (loss) per share	170,797	169,588	170,761	168,527
Shares used to compute diluted net income (loss) per share	184,180	169,588	184,276	168,527

(A) The loss on unoccupied excess office facilities represents the loss from rent payments over the remaining life of the lease related to the space and amounts related to the write-off of certain leasehold improvements.

(B) 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.

(C) 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.

(D) Includes approximately \$3.3 million for both the quarter and nine months ended September 30, 2005 related to the sale of a portion the Company's equity investments

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

	September 30, 2005	December 31, 2004
	(in thousands)	
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	\$ 346,654	\$ 363,621
Trade accounts receivable, net of allowances for doubtful accounts and sales returns	16,793	14,501
Prepaid expenses and other current assets	7,477	8,196
Total current assets	370,924	386,318
Equipment and leasehold improvements, at cost:		
Equipment and software	54,464	45,324
Leasehold improvements	27,463	25,015
Total equipment and leasehold improvements	81,927	70,339
Less accumulated depreciation and amortization	48,492	41,508
Net equipment and leasehold improvements	33,435	28,831
Restricted cash equivalents	18,056	20,151
Notes receivable from related parties	-	106
Equity investments	50,387	36,588
Goodwill, net	130,563	119,217
Other intangible assets, net	8,609	8,383
Other	2,543	2,908
Total assets	\$ 614,517	\$ 602,502

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 14,044	\$ 10,219
Accrued and other liabilities	60,107	50,033
Deferred revenue, current portion	25,598	30,307
Accrued loss on excess office facilities and content agreement, current portion	5,641	8,160
Total current liabilities	105,390	98,719
Deferred revenue, non-current portion	112	548
Accrued loss on excess office facilities and content agreement, non-current portion	15,306	19,017
Deferred rent	3,816	3,413
Convertible debt	100,000	100,000
Other long-term liabilities	200	-
Total shareholders' equity	389,693	380,805
Total liabilities and shareholders' equity	\$ 614,517	\$ 602,502

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

	2005			2004			2003				
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
(in thousands)											
Net Revenue by Line of Business: *											
Consumer products and services (A)	\$ 71,750	70,593	64,206	61,541	56,034	53,743	47,025	41,679	36,377	33,172	32,886
Business products and services (B)	10,483	12,093	12,366	11,005	12,276	11,730	13,365	12,377	15,432	16,474	13,980
Total net revenue	\$ 82,233	82,686	76,572	72,546	68,310	65,473	60,390	54,056	51,809	49,646	46,866
Consumer Products and Services:											
Subscriptions (C)	\$ 47,347	47,817	44,400	42,722	38,386	35,459	32,073	30,540	27,909	25,470	23,639
E-commerce and other (D)	24,403	22,776	19,806	18,819	17,648	18,284	14,952	11,139	8,468	7,702	9,247
Total consumer products and services revenue	\$ 71,750	70,593	64,206	61,541	56,034	53,743	47,025	41,679	36,377	33,172	32,886
Consumer Products and Services: *											
Music (E)	\$ 25,042	24,135	22,243	20,252	18,040	14,954	11,940	7,937	4,655	1,670	831
Video, consumer software and other (F)	23,642	24,607	24,154	25,169	23,619	23,715	24,289	26,369	26,235	27,555	28,485
Games (G)	14,699	13,648	12,189	10,330	9,098	8,352	6,755	3,930	3,150	2,672	2,410
Media Properties (H)	8,367	8,203	5,620	5,790	5,277	6,722	4,041	3,443	2,337	1,275	1,160
Total consumer products and services revenue	\$ 71,750	70,593	64,206	61,541	56,034	53,743	47,025	41,679	36,377	33,172	32,886
Net Revenue by Geography:											
United States	\$ 63,478	63,443	57,757	55,608	52,054	50,949	43,963	40,175	37,660	36,009	33,769
Rest of world	18,755	19,243	18,815	16,938	16,256	14,524	16,427	13,881	14,149	13,637	13,097
Total net revenue	\$ 82,233	82,686	76,572	72,546	68,310	65,473	60,390	54,056	51,809	49,646	46,866
Gross Margin by Line of Business: **											
Consumer products and services	68%	68%	65%	64%	59%	63%	58%	55%	54%	61%	63%
Business products and services	82%	83%	82%	82%	83%	83%	83%	83%	87%	88%	89%
Total gross margin	70%	70%	68%	67%	64%	67%	56%	62%	64%	70%	71%
Subscribers (presented as greater than) ***											
Total ****	2,200	2,000	1,850	1,550	1,550	1,400	1,300	1,300	1,150	1,000	1,000
Music	1,300	1,150	975	700	625	550	450	350	250	150	100

*Reclassifications were made to the presentation of 2004 and 2003 data to conform to the presentation for 2005

**For the quarter ended March 31, 2004, total gross margin includes loss on content agreement of \$4.9 million

***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

****Total subscribers as of March 31, 2004 reflect 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, 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 RealPlayer 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 RadioPass, Rhapsody subscription services and sales of music content, advertising generated from our music and music related websites and the distribution of third party products

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

(G) 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

(H) Revenue is derived from non-game and non-music related advertising and distribution of third party products

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

	Quarters Ended						
	September 30,	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,
	2005	2005	2005	2004	2004	2004	2004
	(in thousands)						
Net income (loss) in accordance with GAAP	\$ 11,182	\$ 4,709	814	(972)	(6,969)	(4,618)	(10,438)
Interest income, net	(2,904)	(2,579)	(2,016)	(1,602)	(1,190)	(800)	(860)
Taxes	3,457	162	144	165	142	113	102
Depreciation, amortization and stock compensation	4,220	4,092	3,666	3,791	4,089	3,810	3,648
EBITDA	15,955	6,384	2,608	1,382	(3,928)	(1,495)	(7,548)
Antitrust litigation	3,531	4,650	3,744	2,997	2,974	2,756	2,321
Loss on content agreement	-	-	-	-	-	-	4,938
EBITDA excluding antitrust litigation and loss on content agreement	\$ 19,486	\$ 11,034	6,352	4,379	(954)	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.

Forward Looking Guidance

A reconciliation of GAAP net income guidance for quarter and year ending December 31, 2005 to EBITDA is as follows:

	Ranges for Quarter Ending		Ranges for Year Ending	
	December 31, 2005		December 31, 2005	
	(in thousands)		(in thousands)	
	Low	High	Low	High
Net income in accordance with GAAP	\$ 263,000	273,000	\$ 280,000	290,000
Interest, taxes, depreciation and amortization, net	135,000	137,000	143,000	145,000
EBITDA	\$ 398,000	410,000	\$ 423,000	435,000