

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands, except per share data)			
Net revenue	\$ 68,310	51,809	194,173	148,321
Cost of revenue	24,786	18,859	68,282	47,563
Loss on content agreement	-	-	4,938	-
Gross profit	<u>43,524</u>	<u>32,950</u>	<u>120,953</u>	<u>100,758</u>
Operating expenses:				
Research and development	13,046	12,108	38,516	34,841
Sales and marketing	24,721	19,098	70,171	56,697
General and administrative	7,968	5,460	23,388	16,821
Loss on excess office facilities (A)	866	-	866	7,098
Antitrust litigation (B)	2,974	-	8,051	-
Stock-based compensation	145	366	624	860
Total operating expenses	<u>49,720</u>	<u>37,032</u>	<u>141,616</u>	<u>116,317</u>
Operating loss	(6,196)	(4,082)	(20,663)	(15,559)
Other income (expense), net:				
Interest income, net	1,190	922	2,850	3,373
Equity in net loss of MusicNet	(1,262)	(1,149)	(3,396)	(4,274)
Impairment of equity investments (C)	(450)	-	(450)	(424)
Other, net	(109)	623	(9)	888
Other income (expense), net	<u>(631)</u>	<u>396</u>	<u>(1,005)</u>	<u>(437)</u>
Loss before income taxes	(6,827)	(3,686)	(21,668)	(15,996)
Income tax (provision) benefit	<u>(142)</u>	<u>32</u>	<u>(357)</u>	<u>(128)</u>
Net loss	<u>\$ (6,969)</u>	<u>(3,654)</u>	<u>(22,025)</u>	<u>(16,124)</u>
Basic and diluted net loss per share	<u>\$ (0.04)</u>	<u>(0.02)</u>	<u>(0.13)</u>	<u>(0.10)</u>
Shares used to compute basic and diluted net loss per share	169,588	161,684	168,527	159,136

(A) The loss on unoccupied excess office facilities represents the loss from rent payments, net of sublease income, over the remaining life of the lease 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.

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

	September 30, 2004	December 31, 2003
(in thousands)		
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	\$ 362,380	373,593
Trade accounts receivable, net of allowances for doubtful accounts and sales returns	13,650	10,618
Prepaid expenses and other current assets	10,498	8,879
Total current assets	386,528	393,090
Equipment and leasehold improvements, at cost:		
Equipment and software	43,574	37,110
Leasehold improvements	24,560	26,085
Total equipment and leasehold improvements	68,134	63,195
Less accumulated depreciation and amortization	39,045	33,258
Net equipment and leasehold improvements	29,089	29,937
Restricted cash equivalents	20,151	19,953
Investments	44,691	34,577
Goodwill, net	119,217	97,477
Other intangible assets, net	9,504	1,065
Other	3,985	4,840
Total assets	\$ 613,165	580,939

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 12,617	6,865
Accrued and other liabilities	51,681	39,400
Deferred revenue, excluding non-current portion	31,543	31,186
Accrued loss on excess office facilities and content agreement, excluding non-current portion	7,045	4,960
Total current liabilities	102,886	82,411
Deferred revenue, excluding current portion	1,290	4,561
Accrued loss on excess office facilities and content agreement, excluding current portion	21,054	24,099
Deferred rent	3,329	3,382
Convertible debt	100,000	100,000
Total shareholders' equity	384,606	366,486
Total liabilities and shareholders' equity	\$ 613,165	580,939

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Supplemental Financial Information
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	2004			2003			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(in thousands)						
Net Revenue by Line of Business:							
Consumer products and services (A)	\$ 55,382	53,061	46,514	41,214	36,377	33,172	32,886
Business products and services (B)	12,928	12,412	13,876	12,842	15,432	16,474	13,980
Total net revenue	<u>\$ 68,310</u>	<u>65,473</u>	<u>60,390</u>	<u>54,056</u>	<u>51,809</u>	<u>49,646</u>	<u>46,866</u>
Consumer Products and Services:							
Subscriptions (C)	\$ 37,734	34,777	31,562	30,075	27,909	25,470	23,639
E-commerce and other (D)	17,648	18,284	14,952	11,139	8,468	7,702	9,247
Total consumer products and services revenue	<u>\$ 55,382</u>	<u>53,061</u>	<u>46,514</u>	<u>41,214</u>	<u>36,377</u>	<u>33,172</u>	<u>32,886</u>
Consumer Products and Services:							
Video, consumer software and other (E)	\$ 27,497	29,129	27,494	29,347	28,572	28,830	29,645
Music (F)	18,787	15,580	12,265	7,937	4,655	1,670	831
Games (G)	9,098	8,352	6,755	3,930	3,150	2,672	2,410
Total consumer products and services revenue	<u>\$ 55,382</u>	<u>53,061</u>	<u>46,514</u>	<u>41,214</u>	<u>36,377</u>	<u>33,172</u>	<u>32,886</u>
Net Revenue by Geography:							
United States	\$ 52,054	50,949	43,963	40,175	37,660	36,009	33,769
Rest of world	16,256	14,524	16,427	13,881	14,149	13,637	13,097
Total net revenue	<u>\$ 68,310</u>	<u>65,473</u>	<u>60,390</u>	<u>54,056</u>	<u>51,809</u>	<u>49,646</u>	<u>46,866</u>
Gross Margin by Line of Business: *							
Consumer products and services	59%	63%	58%	55%	54%	61%	63%
Business products and services	84%	84%	84%	83%	87%	88%	89%
Total gross margin	64%	67%	64%	62%	64%	70%	71%
Subscribers (presented as greater than)							
Total **	1,550	1,400	1,300	1,300	1,150	1,000	1,000
Music	625	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, 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 RealOne SuperPass subscriptions, RealPlayer Plus and related products, stand-alone subscription services and sales and distribution of third party software products and non-game and non-music related advertising

(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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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 September 30, <u>2004</u>	Quarter Ended June 30, <u>2004</u>	Quarter Ended March 31, <u>2004</u>
	(in thousands)		
Net loss in accordance with GAAP	\$ (6,969)	(4,618)	(10,438)
Interest income, net	(1,190)	(800)	(860)
Taxes	142	113	102
Depreciation, amortization and stock compensation	4,089	3,810	3,648
EBITDA	<u>(3,928)</u>	<u>(1,495)</u>	<u>(7,548)</u>
Antitrust litigation	2,974	2,756	2,321
Loss on content agreement	-	-	4,938
EBITDA excluding antitrust litigation and loss on content agreement	<u>\$ (954)</u>	<u>1,261</u>	<u>(289)</u>

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.