

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

	<u>Quarters Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(in thousands, except per share data)			
Net revenue	\$ 82,686	\$ 65,473	\$ 159,258	\$ 125,863
Cost of revenue	24,841	21,735	49,578	43,496
Loss on content agreement	-	-	-	4,938
Gross profit	<u>57,845</u>	<u>43,738</u>	<u>109,680</u>	<u>77,429</u>
Operating expenses:				
Research and development	15,292	13,219	28,962	25,470
Sales and marketing	35,044	23,247	63,064	45,450
General and administrative	7,898	8,599	14,064	15,420
Antitrust litigation (A)	4,650	2,756	8,394	5,077
Stock-based compensation	48	213	84	479
Total operating expenses	<u>62,932</u>	<u>48,034</u>	<u>114,568</u>	<u>91,896</u>
Operating loss	(5,087)	(4,296)	(4,888)	(14,467)
Other income (expense), net:				
Interest income, net	2,579	800	4,595	1,660
Equity in net loss of MusicNet	(2)	(1,019)	(1,068)	(2,134)
Gain on sale of MusicNet investment	7,590	-	7,590	-
Other, net	(209)	10	(400)	100
Other income (expense), net	<u>9,958</u>	<u>(209)</u>	<u>10,717</u>	<u>(374)</u>
Income (loss) before income taxes	4,871	(4,505)	5,829	(14,841)
Income tax provision	<u>(162)</u>	<u>(113)</u>	<u>(306)</u>	<u>(215)</u>
Net income (loss)	<u>\$ 4,709</u>	<u>\$ (4,618)</u>	<u>\$ 5,523</u>	<u>\$ (15,056)</u>
Basic net income (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.03)</u>	<u>\$ 0.03</u>	<u>\$ (0.09)</u>
Diluted net income (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.03)</u>	<u>\$ 0.03</u>	<u>\$ (0.09)</u>
Shares used to compute basic net income (loss) per share	171,393	168,846	171,171	167,930
Shares used to compute diluted net income (loss) per share	184,816	168,846	184,752	167,930

(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.

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

	June 30, 2005	December 31, 2004
	(in thousands)	
ASSETS		
Current assets:		
Cash, cash equivalents and short-term investments	\$ 363,230	\$ 363,621
Trade accounts receivable, net of allowances for doubtful accounts and sales returns	15,818	14,501
Prepaid expenses and other current assets	5,156	8,196
Total current assets	384,204	386,318
Equipment and leasehold improvements, at cost:		
Equipment and software	50,721	45,324
Leasehold improvements	26,141	25,015
Total equipment and leasehold improvements	76,862	70,339
Less accumulated depreciation and amortization	46,235	41,508
Net equipment and leasehold improvements	30,627	28,831
Restricted cash equivalents	18,813	20,151
Equity investments	41,577	36,588
Goodwill, net	130,581	119,217
Other intangible assets, net	10,041	8,383
Other	2,807	3,014
Total assets	\$ 618,650	\$ 602,502

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 14,962	\$ 10,219
Accrued and other liabilities	56,771	50,033
Deferred revenue, excluding non-current portion	25,532	30,307
Accrued loss on excess office facilities and content agreement, excluding non-current portion	6,915	8,160
Total current liabilities	104,180	98,719
Deferred revenue, excluding current portion	237	548
Accrued loss on excess office facilities and content agreement, excluding current portion	16,363	19,017
Deferred rent	3,640	3,413
Convertible debt	100,000	100,000
Other long-term liabilities	200	-
Total shareholders' equity	394,030	380,805
Total liabilities and shareholders' equity	\$ 618,650	\$ 602,502

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

	2005		2004				2003			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(in thousands)									
Net Revenue by Line of Business: *										
Consumer products and services (A)	\$ 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)	12,093	12,366	11,005	12,276	11,730	13,365	12,377	15,432	16,474	13,980
Total net revenue	\$ 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)	\$ 47,817	44,400	42,722	38,386	35,459	32,073	30,540	27,909	25,470	23,639
E-commerce and other (D)	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	\$ 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)	\$ 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)	24,607	24,154	25,169	23,619	23,715	24,289	26,369	26,235	27,555	28,485
Games (G)	13,648	12,189	10,330	9,098	8,352	6,755	3,930	3,150	2,672	2,410
Media Properties (H)	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	\$ 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	\$ 63,443	57,757	55,608	52,054	50,949	43,963	40,175	37,660	36,009	33,769
Rest of world	19,243	18,815	16,938	16,256	14,524	16,427	13,881	14,149	13,637	13,097
Total net revenue	\$ 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%	65%	64%	59%	63%	58%	55%	54%	61%	63%
Business products and services	83%	82%	82%	83%	83%	83%	83%	87%	88%	89%
Total gross margin	70%	68%	67%	64%	67%	56%	62%	64%	70%	71%
Subscribers (presented as greater than) ****										
Total ***	2,000	1,850	1,550	1,550	1,400	1,300	1,300	1,150	1,000	1,000
Music	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

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

****Beginning with 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 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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Supplemental Financial Information
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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					
	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,
	2005	2005	2004	2004	2004	2004
	(in thousands)					
Net income (loss) in accordance with GAAP	\$ 4,709	814	(972)	(6,969)	(4,618)	(10,438)
Interest income, net	(2,579)	(2,016)	(1,602)	(1,190)	(800)	(860)
Taxes	162	144	165	142	113	102
Depreciation, amortization and stock compensation	4,092	3,666	3,791	4,089	3,810	3,648
EBITDA	<u>6,384</u>	<u>2,608</u>	<u>1,382</u>	<u>(3,928)</u>	<u>(1,495)</u>	<u>(7,548)</u>
Antitrust litigation	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	<u>\$ 11,034</u>	<u>6,352</u>	<u>4,379</u>	<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.

Forward Looking Guidance

A reconciliation of GAAP net income guidance for 2005 to EBITDA excluding antitrust litigation is as follows:

	Ranges for Year Ending	
	December 31, 2005	
	(in thousands)	
	Low	High
Net income in accordance with GAAP	\$ 12,000	15,000
Antitrust litigation	16,000	16,000
Interest, taxes, depreciation and amortization, net	5,000	5,000
EBITDA excluding antitrust litigation	<u>\$ 33,000</u>	<u>36,000</u>