

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

(Unaudited)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands, except per share data)			
Net revenue	\$ 59,088	\$ 84,414	\$ 191,578	\$ 255,467
Cost of revenue	25,244	31,816	78,633	94,548
Gross profit	<u>33,844</u>	<u>52,598</u>	<u>112,945</u>	<u>160,919</u>
Sale of patents and other technology assets, net of costs (A)	-	-	116,353	-
Operating expenses:				
Research and development	15,321	16,496	49,167	54,200
Sales and marketing	21,972	28,625	68,462	85,958
General and administrative	8,759	10,522	35,103	27,018
Restructuring and other charges	10,724	438	13,872	7,850
Loss (gain) on excess office facilities	243	-	243	(174)
Total operating expenses	<u>57,019</u>	<u>56,081</u>	<u>166,847</u>	<u>174,852</u>
Operating income (loss)	<u>(23,175)</u>	<u>(3,483)</u>	<u>62,451</u>	<u>(13,933)</u>
Other income (expenses):				
Interest income, net	164	672	1,033	1,362
Gain (loss) on sale of equity and other investments, net	2,210	-	5,288	-
Equity in net loss of Rhapsody investment	(1,613)	(1,440)	(4,095)	(5,739)
Other income (expense), net	248	(228)	1,674	(661)
Total other income (expense), net	<u>1,009</u>	<u>(996)</u>	<u>3,900</u>	<u>(5,038)</u>
Income (loss) before income taxes	(22,166)	(4,479)	66,351	(18,971)
Income tax (expense) benefit	(48)	(703)	(24,583)	(5,365)
Net income (loss)	<u>\$ (22,214)</u>	<u>\$ (5,182)</u>	<u>\$ 41,768</u>	<u>\$ (24,336)</u>
Basic net income (loss) per share	\$ (0.63)	\$ (0.15)	\$ 1.20	\$ (0.71)
Diluted net income (loss) per share	\$ (0.63)	\$ (0.15)	\$ 1.19	\$ (0.71)
Shares used to compute basic net income (loss) per share	34,998	34,199	34,747	34,081
Shares used to compute diluted net income (loss) per share	34,998	34,199	35,000	34,081

(A) On April 5, 2012, RealNetworks completed the sale of certain patents and other technology assets to Intel for a cash purchase of \$120.0 million.

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

	<u>September 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
(in thousands)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 170,702	\$ 106,333
Short-term investments	103,046	78,739
Trade accounts receivable, net	35,716	41,165
Deferred costs, current portion	1,910	1,424
Prepaid expenses and other current assets	<u>19,901</u>	<u>21,902</u>
Total current assets	<u>331,275</u>	<u>249,563</u>
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	100,053	104,352
Leasehold improvements	<u>26,184</u>	<u>25,947</u>
Total equipment, software, and leasehold improvements	<u>126,237</u>	<u>130,299</u>
Less accumulated depreciation and amortization	<u>93,287</u>	<u>92,825</u>
Net equipment, software, and leasehold improvements	32,950	37,474
Restricted cash equivalents and investments	10,064	10,168
Equity method investments	3,703	7,798
Available for sale securities	36,819	37,204
Other assets	3,197	2,954
Deferred costs, non-current portion	170	843
Deferred tax assets, net, non-current portion	4,566	18,419
Other intangible assets, net	4,085	7,169
Goodwill	<u>6,375</u>	<u>6,198</u>
Total assets	<u>\$ 433,204</u>	<u>\$ 377,790</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 21,350	\$ 17,151
Accrued and other liabilities	62,215	59,194
Deferred revenue, current portion	11,558	11,835
Accrued loss on excess office facilities, current portion	<u>747</u>	<u>596</u>
Total current liabilities	95,870	88,776
Deferred revenue, non-current portion	159	195
Accrued loss on excess office facilities, non-current portion	1,229	2,151
Deferred rent	2,712	2,944
Deferred tax liabilities, net, non-current portion	1,085	1,443
Other long-term liabilities	<u>10,290</u>	<u>10,994</u>
Total liabilities	<u>111,345</u>	<u>106,503</u>
Shareholders' equity	<u>321,859</u>	<u>271,287</u>
Total liabilities and shareholders' equity	<u>\$ 433,204</u>	<u>\$ 377,790</u>

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

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>	
Cash flows from operating activities:		
Net income (loss)	\$ 41,768	\$ (24,336)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	12,478	12,519
Stock-based compensation	6,419	9,086
Loss (gain) on disposal of equipment, software, and leasehold improvements	1,965	81
Equity in net loss of Rhapsody investment	4,095	5,739
Excess tax benefit from stock option exercises	-	(57)
Deferred income taxes, net	22,399	(429)
Gain on sale of patent and other technology assets, net of costs	(116,353)	-
Gain on sale of equity and other investments, net	(5,288)	-
Realized translation gain	(1,968)	-
Other	-	(19)
Net change in certain operating assets and liabilities	3,735	(9,960)
Net cash provided by (used in) operating activities	(30,750)	(7,376)
Cash flows from investing activities:		
Purchases of equipment, software, and leasehold improvements	(6,478)	(6,013)
Proceeds from sale of patents and other technology assets, net of costs	116,353	-
Proceeds from sale of equity and other investments	7,244	-
Purchases of short-term investments	(76,191)	(77,078)
Proceeds from sales and maturities of short-term investments	51,885	95,104
Decrease (increase) in restricted cash equivalents and investments, net	103	(141)
Payment of acquisition costs, net of cash acquired	-	(2,888)
Net cash provided by (used in) investing activities	92,916	8,984
Cash flows from financing activities:		
Proceeds from issuance of common stock (stock options and stock purchase plan)	3,240	1,940
Tax payments from shares withheld upon vesting of restricted stock	(964)	-
Excess tax benefit from stock option exercises	-	57
Payment of common stock cash dividend	-	(136,793)
Net cash provided by (used in) financing activities	2,276	(134,796)
Effect of exchange rate changes on cash and cash equivalents	(73)	(19)
Net increase (decrease) in cash and cash equivalents	64,369	(133,207)
Cash and cash equivalents, beginning of period	106,333	236,018
Cash and cash equivalents, end of period	\$ 170,702	\$ 102,811

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

	2012			2011			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Net Revenue by Line of Business:</b>	(in thousands)						
Core Products (A)	\$ 34,078	\$ 38,250	\$ 37,697	\$ 46,693	\$ 50,705	\$ 45,735	\$ 48,107
Emerging Products (B)	10,134	9,913	10,159	11,974	10,764	12,717	11,135
Games (C)	14,876	17,363	19,108	21,552	22,945	25,300	28,059
Total net revenue	<u>\$ 59,088</u>	<u>\$ 65,526</u>	<u>\$ 66,964</u>	<u>\$ 80,219</u>	<u>\$ 84,414</u>	<u>\$ 83,752</u>	<u>\$ 87,301</u>
<b>Core Products Revenue by Product:</b>							
SaaS (D)	\$ 20,697	\$ 23,286	\$ 23,463	\$ 28,255	\$ 30,381	\$ 30,216	\$ 30,526
Systems Integration / Professional Services (E)	247	965	426	771	3,844	388	1,840
Technology Licensing (F)	6,079	7,189	6,207	9,246	6,250	6,508	6,425
Consumer Subscriptions (G)	7,055	6,810	7,601	8,421	10,230	8,623	9,316
Total Core Products net revenue	<u>\$ 34,078</u>	<u>\$ 38,250</u>	<u>\$ 37,697</u>	<u>\$ 46,693</u>	<u>\$ 50,705</u>	<u>\$ 45,735</u>	<u>\$ 48,107</u>
<b>Net Revenue by Geography:</b>							
United States	\$ 29,101	\$ 28,614	\$ 31,814	\$ 37,298	\$ 38,969	\$ 41,984	\$ 44,469
Rest of world	29,987	36,912	35,150	42,921	45,445	41,768	42,832
Total net revenue	<u>\$ 59,088</u>	<u>\$ 65,526</u>	<u>\$ 66,964</u>	<u>\$ 80,219</u>	<u>\$ 84,414</u>	<u>\$ 83,752</u>	<u>\$ 87,301</u>
<b>Product Metrics (subscribers and ICM presented as greater than):</b>							
Addressable subscribers of mobile operators under contract (H)	700,000	725,000	725,000	725,000	700,000	775,000	775,000
SaaS subscribers (I)	26,500	30,600	30,500	30,050	34,000	34,550	35,900
Monthly SaaS ARPU (in cents) (J)	\$ 0.17	\$ 0.16	\$ 0.15	\$ 0.19	\$ 0.17	\$ 0.18	\$ 0.18
ICM delivered in billions (K)	173	162	166	165	162	157	151
Consumer subscribers(L)	350	350	400	425	500	475	500

**Net Revenue by Line of Business:**

(A) The Core Products segment primarily includes revenue from SaaS services, system integration and professional services to carriers and mobile handset companies, sales of technology licenses of our software products such as Helix for handsets, consumer subscriptions such as SuperPass and our international radio subscription services.

(B) The Emerging Products segment primarily includes revenue from RealPlayer and related products, such as the distribution of third party software products, advertising on RealPlayer websites and sales of RealPlayerPlus software licenses to consumers.

(C) The Games segment primarily includes revenue from sales of games licenses, online games subscription services, advertising on game sites and social network sites, games syndication services, microtransactions from online and social games and sales of mobile games.

**Core Products Revenue by Product:**

(D) Software as a Service (SaaS) revenue includes revenue from music on demand (MOD), video on demand (VOD), ringtones, ringback tones (RBT) and intercarrier messaging services provided to network service providers, who are largely mobile phone networks.

(E) Systems Integrations / Professional Services revenue includes professional services, other than those associated with software sales, provided to mobile carriers and handset manufacturers.

(F) Technology Licensing includes revenue from sales of software and other intellectual property licenses such as Helix server licenses and Helix software licenses for handsets.

(G) Consumer Subscriptions includes revenue from SuperPass as well as our international radio subscription services.

**Product Metrics:**

(H) Total subscribers reported at the end of the quarter of mobile carriers that offer one or more of our SaaS services, other than intercarrier messaging services, to their customers.

(I) SaaS subscribers include RBT, MOD and VOD services, measured at the end of the quarter.

(J) Monthly SaaS ARPU (Average Revenue Per User) is calculated by dividing (a) the total quarterly revenue from SaaS subscription services, including RBT, MOD, VOD, by (b) the number of SaaS subscribers at the end of the quarter, and dividing the resulting quotient by three.

(K) ICM (Inter-carrier message) represents the total number of messages delivered across our messaging platform during the quarter.

(L) Consumer subscribers primarily includes our SuperPass and GamePass products.

**RealNetworks, Inc. and Subsidiaries**  
**Segment Results of Operations**  
(Unaudited)

	2012		2011	2012	2011
	Q3	Q2	Q3	YTD	YTD
(in thousands)					
<b>Core Products</b>					
Net revenue	\$ 34,078	\$ 38,250	\$ 50,705	\$ 110,025	\$ 144,547
Cost of revenue	17,323	17,681	22,492	52,832	62,829
Gross profit	16,755	20,569	28,213	57,193	81,718
Gross margin	49%	54%	56%	52%	57%
Operating expenses	15,575	16,429	19,398	50,072	57,958
Operating income (loss)	\$ 1,180	\$ 4,140	\$ 8,815	\$ 7,121	\$ 23,760
Adjusted EBITDA	\$ 3,736	\$ 6,628	\$ 11,617	\$ 14,764	\$ 31,777
<b>Emerging Products</b>					
Net revenue	\$ 10,134	\$ 9,913	\$ 10,764	\$ 30,206	\$ 34,616
Cost of revenue	2,041	1,800	3,913	5,946	8,431
Gross profit	8,093	8,113	6,851	24,260	26,185
Gross margin	80%	82%	64%	80%	76%
Operating expenses	8,245	7,092	8,884	22,883	28,144
Operating income (loss)	\$ (152)	\$ 1,021	\$ (2,033)	\$ 1,377	\$ (1,959)
Adjusted EBITDA	\$ 158	\$ 1,266	\$ (1,711)	\$ 2,178	\$ (1,192)
<b>Games</b>					
Net revenue	\$ 14,876	\$ 17,363	\$ 22,945	\$ 51,347	\$ 76,304
Cost of revenue	4,936	5,572	7,197	17,169	23,771
Gross profit	9,940	11,791	15,748	34,178	52,533
Gross margin	67%	68%	69%	67%	69%
Operating expenses	11,648	13,093	14,159	38,171	46,184
Operating income (loss)	\$ (1,708)	\$ (1,302)	\$ 1,589	\$ (3,993)	\$ 6,349
Adjusted EBITDA	\$ (894)	\$ (619)	\$ 2,275	\$ (1,837)	\$ 8,363
<b>Corporate</b>					
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of revenue	944	909	(1,786)	2,686	(483)
Gross profit	(944)	(909)	1,786	(2,686)	483
Gross margin	N/A	N/A	N/A	N/A	N/A
Gain on sale of patents and other technology assets, net of costs	-	117,933	-	116,353	-
Operating expenses	21,551	16,715	13,640	55,721	42,566
Operating income (loss)	\$ (22,495)	\$ 100,309	\$ (11,854)	\$ 57,946	\$ (42,083)
Adjusted EBITDA	\$ (9,042)	\$ (13,784)	\$ (8,094)	\$ (35,073)	\$ (25,097)
<b>Total</b>					
Net revenue	\$ 59,088	\$ 65,526	\$ 84,414	\$ 191,578	\$ 255,467
Cost of revenue	25,244	25,962	31,816	78,633	94,548
Gross profit	33,844	39,564	52,598	112,945	160,919
Gross margin	57%	60%	62%	59%	63%
Gain on sale of patents and other technology assets, net of costs	-	117,933	-	116,353	-
Operating expenses	57,019	53,329	56,081	166,847	174,852
Operating income (loss)	\$ (23,175)	\$ 104,168	\$ (3,483)	\$ 62,451	\$ (13,933)
Adjusted EBITDA	\$ (6,042)	\$ (6,509)	\$ 4,087	\$ (19,968)	\$ 13,851

**RealNetworks, Inc. and Subsidiaries**  
**Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment**  
(Unaudited)

	2012		2011		
	Q3	Q2	Q3	YTD	YTD
	(in thousands)				
<b>Core Products</b>					
<b>Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:</b>					
Operating income (loss)	\$ 1,180	\$ 4,140	\$ 8,815	\$ 7,121	\$ 23,760
Acquisitions related intangible asset amortization	796	786	833	2,384	2,017
Depreciation and amortization	1,760	1,702	1,969	5,259	6,000
Adjusted EBITDA	\$ 3,736	\$ 6,628	\$ 11,617	\$ 14,764	\$ 31,777
<b>Emerging Products</b>					
<b>Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:</b>					
Operating income (loss)	\$ (152)	\$ 1,021	\$ (2,033)	\$ 1,377	\$ (1,959)
Acquisitions related intangible asset amortization	62	79	79	220	132
Depreciation and amortization	248	166	243	581	635
Adjusted EBITDA	\$ 158	\$ 1,266	\$ (1,711)	\$ 2,178	\$ (1,192)
<b>Games</b>					
<b>Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:</b>					
Operating income (loss)	\$ (1,708)	\$ (1,302)	\$ 1,589	\$ (3,993)	\$ 6,349
Acquisitions related intangible asset amortization	171	207	257	587	767
Depreciation and amortization	643	476	429	1,569	1,247
Adjusted EBITDA	\$ (894)	\$ (619)	\$ 2,275	\$ (1,837)	\$ 8,363
<b>Corporate</b>					
<b>Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:</b>					
Operating income (loss)	\$ (22,495)	\$ 100,309	\$ (11,854)	\$ 57,946	\$ (42,083)
Other income (expense), net	248	(49)	(228)	1,674	(661)
Depreciation and amortization	636	628	593	1,878	1,721
Restructuring and other charges	10,724	1,539	438	13,872	7,850
Stock-based compensation	1,602	1,722	2,957	5,667	8,250
Gain on sale of patents and other technology assets, net of costs	-	(117,933)	-	(116,353)	-
Loss (Gain) on excess office facilities	243	-	-	243	(174)
Adjusted EBITDA	\$ (9,042)	\$ (13,784)	\$ (8,094)	\$ (35,073)	\$ (25,097)
<b>Total</b>					
<b>Reconciliation of GAAP operating income (loss) to adjusted EBITDA:</b>					
Operating income (loss)	\$ (23,175)	\$ 104,168	\$ (3,483)	\$ 62,451	\$ (13,933)
Other income (expense), net	248	(49)	(228)	1,674	(661)
Acquisitions related intangible asset amortization	1,029	1,072	1,169	3,191	2,916
Depreciation and amortization	3,287	2,972	3,234	9,287	9,603
Loss (Gain) on excess office facilities	243	-	-	243	(174)
Restructuring and other charges	10,724	1,539	438	13,872	7,850
Stock-based compensation	1,602	1,722	2,957	5,667	8,250
Gain on sale of patents and other technology assets, net of costs	-	(117,933)	-	(116,353)	-
Adjusted EBITDA	\$ (6,042)	\$ (6,509)	\$ 4,087	\$ (19,968)	\$ 13,851