

RealNetworks, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations

(Unaudited)

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
	(in thousands, except per share data)			
Net revenue	\$ 84,414	\$ 86,432	\$ 255,467	\$ 303,916
Cost of revenue	31,816	30,710	94,548	109,018
Gross profit	52,598	55,722	160,919	194,898
Operating expenses:				
Research and development	16,496	19,517	54,200	81,775
Sales and marketing	28,625	26,321	85,958	91,530
Advertising with related party (A)	-	-	-	1,065
General and administrative	10,522	12,640	27,018	42,151
Restructuring and other charges	438	1,080	7,850	11,487
Loss (gain) on excess office facilities	-	314	(174)	7,396
Total operating expenses	56,081	59,872	174,852	235,404
Operating income (loss)	(3,483)	(4,150)	(13,933)	(40,506)
Other income (expenses):				
Interest income, net	672	1,074	1,362	2,005
Equity in net loss of Rhapsody and other equity method investments (B)	(1,440)	(6,142)	(5,739)	(11,569)
Loss on sale of equity investments, net	-	-	-	(50)
Gain on deconsolidation of Rhapsody	-	-	-	10,929
Other income (expense), net	(228)	(206)	(661)	887
Total other income (expense), net	(996)	(5,274)	(5,038)	2,202
Income (loss) before income taxes	(4,479)	(9,424)	(18,971)	(38,304)
Income tax (expense) benefit	(703)	33,947	(5,365)	37,238
Net income (loss)	(5,182)	24,523	(24,336)	(1,066)
Net loss attributable to the noncontrolling interest in Rhapsody (C)	-	-	-	2,910
Net income (loss) attributable to common shareholders	\$ (5,182)	\$ 24,523	\$ (24,336)	\$ 1,844
Basic net income (loss) per share available to common shareholders	\$ (0.15)	\$ 0.72	\$ (0.71)	\$ 0.16
Diluted net income (loss) per share available to common shareholders	\$ (0.15)	\$ 0.71	\$ (0.71)	\$ 0.16
Shares used to compute basic net income (loss) per share available to common shareholders	34,199	33,905	34,081	33,826
Shares used to compute diluted net income (loss) per share available to common shareholders	34,199	34,442	34,081	34,558

(A) Consists of advertising purchased by Rhapsody from MTV Networks (MTVN). MTVN had a 49% ownership interest in Rhapsody prior to the restructuring transactions that occurred on March 31, 2010. See note (B) for more details regarding the restructuring and the related deconsolidation.

(B) On March 31, 2010, we completed the restructuring of Rhapsody which resulted in our ownership decreasing to approximately 47% of the outstanding equity in Rhapsody and no longer having operating control. Since the restructuring was completed on the last day of the quarter ended March 31, 2010, our statement of operations for the first quarter of 2010 includes results from Rhapsody's operations. Beginning with the quarter ended June 30, 2010, Rhapsody's revenue or other operating results are no longer consolidated within our financial statements and we are not recording any operating or other financial results for our Music segment. We now report our share of Rhapsody's income or losses as "Equity in net loss of Rhapsody and other equity method investments" in "Other income (expenses)".

(C) Net loss attributable to the noncontrolling interest in Rhapsody reflects MTVN's 49% ownership share in the losses of Rhapsody prior to the restructuring transactions that occurred on March 31, 2010.

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

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 102,811	\$ 236,018
Short-term investments	80,277	98,303
Trade accounts receivable, net	38,725	48,324
Deferred costs, current portion	6,948	9,173
Related party receivable - Rhapsody (A)	392	351
Prepaid expenses and other current assets	<u>24,702</u>	<u>30,441</u>
Total current assets	<u>253,855</u>	<u>422,610</u>
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	146,902	144,623
Leasehold improvements	<u>25,534</u>	<u>25,367</u>
Total equipment, software, and leasehold improvements	<u>172,436</u>	<u>169,990</u>
Less accumulated depreciation and amortization	<u>132,321</u>	<u>126,619</u>
Net equipment, software, and leasehold improvements	40,115	43,371
Restricted cash equivalents and investments	10,130	10,000
Equity method investments	9,956	15,486
Available for sale securities	38,667	27,541
Other assets	2,981	3,316
Deferred costs, non-current portion	15,018	18,401
Deferred tax assets, net, non-current portion	10,775	12,805
Other intangible assets, net	8,049	6,952
Goodwill	<u>6,060</u>	<u>4,960</u>
Total assets	<u>\$ 395,606</u>	<u>\$ 565,442</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 18,214	\$ 30,413
Accrued and other liabilities	70,107	85,702
Deferred revenue, current portion	14,724	19,036
Accrued loss on excess office facilities, current portion	<u>1,053</u>	<u>1,144</u>
Total current liabilities	104,098	136,295
Deferred revenue, non-current portion	398	460
Accrued loss on excess office facilities, non-current portion	2,458	3,380
Deferred rent	2,961	3,514
Deferred tax liabilities, net, non-current portion	1,790	1,049
Other long-term liabilities	<u>10,813</u>	<u>7,999</u>
Total liabilities	<u>122,518</u>	<u>152,697</u>
Shareholders' equity	<u>273,088</u>	<u>412,745</u>
Total liabilities and shareholders' equity	<u>\$ 395,606</u>	<u>\$ 565,442</u>

(A) Related party receivable reflects amounts Rhapsody International, formed on March 31, 2010, owes RealNetworks.

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

	Nine Months Ended September 30,	
	2011	2010
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (24,336)	\$ (1,066)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	12,519	19,047
Stock-based compensation	9,086	10,280
Loss (gain) on disposal of equipment, software, and leasehold improvements	81	155
Equity in net loss of Rhapsody and other equity method investments	5,739	11,569
Loss on sale of equity investment, net	-	50
Gain on deconsolidation of Rhapsody	-	(10,929)
Excess tax benefit from stock option exercises	(57)	(48)
Accrued restructuring and other charges	-	997
Accrued loss (gain) on excess office facilities	(174)	6,108
Deferred income taxes, net	(429)	80
Other	(19)	153
Net change in certain operating assets and liabilities, net of acquisitions, disposals and deconsolidation of Rhapsody	(9,786)	(72,874)
Net cash used in operating activities	(7,376)	(36,478)
Cash flows from investing activities:		
Purchases of equipment, software, and leasehold improvements	(6,013)	(11,415)
Purchases of short-term investments	(77,078)	(102,486)
Proceeds from sales and maturities of short-term investments	95,104	96,026
Payment of acquisition costs, net of cash acquired	(2,888)	(5,760)
Payment in connection with the restructuring of Rhapsody	-	(18,000)
Repayment of temporary funding on deconsolidation of Rhapsody	-	5,869
Decrease (increase) in restricted cash equivalents and investments, net	(141)	3,700
Net cash provided by (used in) investing activities	8,984	(32,066)
Cash flows from financing activities:		
Net proceeds from sales of common stock under employee stock purchase plan and exercise of stock options	1,940	1,378
Net proceeds from sales of interest in Rhapsody	-	1,213
Excess tax benefit from stock option exercises	57	48
Common Stock cash dividend paid	(136,793)	-
Net cash (used in) provided by financing activities	(134,796)	2,639
Effect of exchange rate changes on cash and cash equivalents	(19)	3,770
Net increase (decrease) in cash and cash equivalents	(133,207)	(62,135)
Cash and cash equivalents, beginning of period	236,018	277,030
Cash and cash equivalents, end of period	\$ 102,811	\$ 214,895

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

	2011			2010			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net Revenue by Line of Business:					(in thousands)		
Core Products (A)	\$ 50,705	\$ 45,735	\$ 48,107	\$ 58,030	\$ 51,870	\$ 51,742	\$ 51,203
Emerging Products (B)	10,764	12,717	11,135	12,558	8,778	8,997	11,428
Games (C)	22,945	25,300	28,059	27,229	25,784	28,145	30,236
Total net revenue excluding music	84,414	83,752	87,301	97,817	86,432	88,884	92,867
Music (D)	-	-	-	-	-	-	35,733
Total net revenue including music	\$ 84,414	\$ 83,752	\$ 87,301	\$ 97,817	\$ 86,432	\$ 88,884	\$ 128,600
Core Products Revenue by Product:							
SaaS (E)	\$ 30,381	\$ 30,216	\$ 30,526	\$ 35,656	\$ 31,885	\$ 32,388	\$ 33,614
Systems Integrations / Professional Services (F)	3,844	388	1,840	4,388	953	998	367
Technology Licensing (G)	6,250	6,508	6,425	7,632	7,473	7,736	7,910
Consumer Subscriptions (H)	10,230	8,623	9,316	10,354	11,559	10,620	9,312
Total Core Products net revenue	\$ 50,705	\$ 45,735	\$ 48,107	\$ 58,030	\$ 51,870	\$ 51,742	\$ 51,203
Net Revenue by Geography:							
United States	\$ 38,969	\$ 41,984	\$ 44,469	\$ 48,048	\$ 46,874	\$ 48,351	\$ 84,550
Rest of world	45,445	41,768	42,832	49,769	39,558	40,533	44,050
Total net revenue	\$ 84,414	\$ 83,752	\$ 87,301	\$ 97,817	\$ 86,432	\$ 88,884	\$ 128,600

Product Metrics (subscribers and ICM presented as greater than):

Addressable subscribers of mobile operators under contract (I)	700,000	775,000	775,000	700,000	700,000	675,000	650,000
SaaS subscribers (J)	34,000	34,550	35,900	36,700	37,500	37,600	37,950
Monthly SaaS ARPU (in cents) (K)	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.20	\$ 0.16	\$ 0.16	\$ 0.16
ICM delivered in billions (L)	162	157	151	136	134	128	120
Consumer subscribers (M)	500	475	500	550	600	600	575

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, and 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.

(D) On March 31, 2010, we completed the restructuring of Rhapsody, which resulted in our ownership decreasing to approximately 47% of the outstanding equity in Rhapsody, and our loss of operating control over Rhapsody. Beginning with the quarter ended June 30, 2010, Rhapsody's revenue or other operating results are no longer consolidated within our financial statements and we are not recording any operating or other financial results for our Music segment. We now report our share of Rhapsody's income or losses as "Equity in net loss of Rhapsody and other equity method investments" in "Other income (expense)".

Core Products Revenue by Product:

(E) 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.

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

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

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

Product Metrics:

(I) 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.

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

(K) 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.

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

(M) Consumer subscribers primarily includes our SuperPass and GamePass products. We repurchased our international radio subscription services from Rhapsody as part of the restructuring that occurred on March 31, 2010, and as a result, subscribers to our international radio services are included beginning in the quarter ended June 30, 2010.

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

	2011		2010		
	Q3	Q2	Q3	YTD	
Core Products					
Net revenue	\$ 50,705	\$ 45,735	\$ 51,870	\$ 144,547	\$ 154,815
Cost of revenue	<u>22,492</u>	<u>19,353</u>	<u>22,230</u>	<u>62,829</u>	<u>58,054</u>
Gross profit	28,213	26,382	29,640	81,718	96,761
Gross margin	56%	58%	57%	57%	63%
Operating expenses	<u>19,398</u>	<u>19,174</u>	<u>19,772</u>	<u>57,958</u>	<u>66,368</u>
Operating income (loss)	\$ 8,815	\$ 7,208	\$ 9,868	\$ 23,760	\$ 30,395
Adjusted EBITDA	\$ 11,617	\$ 9,900	\$ 13,309	\$ 31,777	\$ 40,783
Emerging Products					
Net revenue	\$ 10,764	\$ 12,717	\$ 8,778	\$ 34,616	\$ 29,203
Cost of revenue	<u>3,913</u>	<u>2,978</u>	<u>1,076</u>	<u>8,431</u>	<u>5,944</u>
Gross profit	6,851	9,739	7,702	26,185	23,259
Gross margin	64%	77%	88%	76%	80%
Operating expenses	<u>8,884</u>	<u>9,369</u>	<u>6,059</u>	<u>28,144</u>	<u>20,694</u>
Operating income (loss)	\$ (2,033)	\$ 370	\$ 1,643	\$ (1,959)	\$ 2,565
Adjusted EBITDA	\$ (1,711)	\$ 707	\$ 1,771	\$ (1,192)	\$ 3,048
Games					
Net revenue	\$ 22,945	\$ 25,300	\$ 25,784	\$ 76,304	\$ 84,165
Cost of revenue	<u>7,197</u>	<u>8,040</u>	<u>6,279</u>	<u>23,771</u>	<u>21,210</u>
Gross profit	15,748	17,260	19,505	52,533	62,955
Gross margin	69%	68%	76%	69%	75%
Operating expenses	<u>14,159</u>	<u>15,211</u>	<u>17,092</u>	<u>46,184</u>	<u>60,695</u>
Operating income (loss)	\$ 1,589	\$ 2,049	\$ 2,413	\$ 6,349	\$ 2,260
Adjusted EBITDA	\$ 2,275	\$ 2,748	\$ 2,885	\$ 8,363	\$ 6,518
Music					
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ 35,733
Cost of revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,864</u>
Gross profit	-	-	-	-	13,869
Gross margin	N/A	N/A	N/A	N/A	39%
Operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,911</u>
Operating income (loss)	\$ -	\$ -	\$ -	\$ -	\$ (42)
Adjusted EBITDA	\$ -	\$ -	\$ -	\$ -	\$ 4,214
Corporate					
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of revenue	<u>(1,786)</u>	<u>295</u>	<u>1,125</u>	<u>(483)</u>	<u>1,946</u>
Gross profit	1,786	(295)	(1,125)	483	(1,946)
Gross margin	N/A	N/A	N/A	N/A	N/A
Operating expenses	<u>13,640</u>	<u>14,116</u>	<u>16,949</u>	<u>42,566</u>	<u>73,738</u>
Operating income (loss)	\$ (11,854)	\$ (14,411)	\$ (18,074)	\$ (42,083)	\$ (75,684)
Adjusted EBITDA	\$ (8,094)	\$ (11,133)	\$ (12,265)	\$ (25,097)	\$ (42,534)
Total					
Net revenue	\$ 84,414	\$ 83,752	\$ 86,432	\$ 255,467	\$ 303,816
Cost of revenue	<u>31,816</u>	<u>30,666</u>	<u>30,710</u>	<u>94,548</u>	<u>109,018</u>
Gross profit	52,598	53,086	55,722	160,919	194,898
Gross margin	62%	63%	64%	63%	64%
Operating expenses	<u>56,081</u>	<u>57,870</u>	<u>59,872</u>	<u>174,852</u>	<u>235,404</u>
Operating income (loss)	\$ (3,483)	\$ (4,784)	\$ (4,150)	\$ (13,933)	\$ (40,506)
Adjusted EBITDA	\$ 4,087	\$ 2,222	\$ 5,700	\$ 13,851	\$ 12,029

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

	2011		2010	2011	2010
	Q3	Q2	Q3	YTD	YTD
Core Products					
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:					
Operating income (loss)	\$ 8,815	\$ 7,208	\$ 9,868	\$ 23,760	\$ 30,395
Acquisitions related intangible asset amortization	833	710	1,059	2,017	3,286
Depreciation and amortization	1,969	1,982	2,382	6,000	7,102
Impairment of goodwill	-	-	-	-	-
Adjusted EBITDA	\$ 11,617	\$ 9,900	\$ 13,309	\$ 31,777	\$ 40,783
Emerging Products					
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:					
Operating income (loss)	\$ (2,033)	\$ 370	\$ 1,643	\$ (1,959)	\$ 2,565
Acquisitions related intangible asset amortization	79	53	-	132	-
Depreciation and amortization	243	284	128	635	483
Impairment of goodwill	-	-	-	-	-
Adjusted EBITDA	\$ (1,711)	\$ 707	\$ 1,771	\$ (1,192)	\$ 3,048
Games					
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:					
Operating income (loss)	\$ 1,589	\$ 2,049	\$ 2,413	\$ 6,349	\$ 2,260
Acquisitions related intangible asset amortization	257	256	126	767	247
Depreciation and amortization	429	443	346	1,247	4,011
Impairment of goodwill	-	-	-	-	-
Adjusted EBITDA	\$ 2,275	\$ 2,748	\$ 2,885	\$ 8,363	\$ 6,518
Music					
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:					
Operating income (loss)	\$ -	\$ -	\$ -	\$ -	\$ (42)
Net loss attributable to noncontrolling interest in Rhapsody	-	-	-	-	2,910
Acquisitions related intangible asset amortization (A)	-	-	-	-	58
Depreciation and amortization (A)	-	-	-	-	690
Pro forma gain on sale of interest in Rhapsody America	-	-	-	-	598
Impairment of goodwill	-	-	-	-	-
Adjusted EBITDA	\$ -	\$ -	\$ -	\$ -	\$ 4,214
Corporate					
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:					
Operating income (loss)	\$ (11,854)	\$ (14,411)	\$ (18,074)	\$ (42,083)	\$ (75,684)
Other income (expense), net	(228)	(311)	(206)	(661)	887
Depreciation and amortization	593	569	1,033	1,721	3,100
Restructuring and other charges	438	508	1,080	7,850	11,487
Stock-based compensation	2,957	2,686	3,588	8,250	10,280
Loss on excess office facilities	-	(174)	314	(174)	7,396
Adjusted EBITDA	\$ (8,094)	\$ (11,133)	\$ (12,265)	\$ (25,097)	\$ (42,534)
Total					
Reconciliation of GAAP operating income (loss) to adjusted EBITDA:					
Operating income (loss)	\$ (3,483)	\$ (4,784)	\$ (4,150)	\$ (13,933)	\$ (40,506)
Net loss attributable to noncontrolling interest in Rhapsody	-	-	-	-	2,910
Other income (expense), net	(228)	(311)	(206)	(661)	887
Acquisitions related intangible asset amortization (A)	1,169	1,019	1,185	2,916	3,591
Depreciation and amortization (A)	3,234	3,278	3,889	9,603	15,386
Loss on excess office facilities	-	(174)	314	(174)	7,396
Pro forma gain on sale of interest in Rhapsody America	-	-	-	-	598
Restructuring and other charges	438	508	1,080	7,850	11,487
Stock-based compensation	2,957	2,686	3,588	8,250	10,280
Adjusted EBITDA	\$ 4,087	\$ 2,222	\$ 5,700	\$ 13,851	\$ 12,029

(A) Net of noncontrolling interest effect.

RealNetworks, Inc. and Subsidiaries
Earnings Per Share Reconciliation
(Unaudited)

	<u>Quarters Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(In thousands, except per share data)			
Net income (loss) attributable to common shareholders	\$ (5,182)	\$ 24,523	\$ (24,336)	\$ 1,844
Less termination of MTVN's preferred return in Rhapsody	-	-	-	3,700
Net income (loss) available to common shareholders	<u>\$ (5,182)</u>	<u>\$ 24,523</u>	<u>\$ (24,336)</u>	<u>\$ 5,544</u>
Shares used to compute basic net income (loss) per share available to common shareholders	34,199	33,905	34,081	33,826
Dilutive stock options and restricted stock	-	537	-	732
Shares used to compute diluted net income (loss) per share available to common shareholders	<u>34,199</u>	<u>34,442</u>	<u>34,081</u>	<u>34,558</u>
Basic net income (loss) per share available to common shareholders	\$ (0.15)	\$ 0.72	\$ (0.71)	\$ 0.16
Diluted net income (loss) per share available to common shareholders	\$ (0.15)	\$ 0.71	\$ (0.71)	\$ 0.16

	2011 Q3	2011 Q2	2010 Q3	Sequential Change	Yr/Yr Change
	(in thousands)				
Revenue					
Core Products	\$ 50,705	\$ 45,735	\$ 51,870	11%	-2%
Emerging Products	10,764	12,717	8,778	-15%	23%
Games	22,945	25,300	25,784	-9%	-11%
Corporate	-	-	-		
Total	\$ 84,414	\$ 83,752	\$ 86,432	1%	-2%
Operating Income (loss)					
Core Products	\$ 8,815	\$ 7,208	\$ 9,868	22%	-11%
Emerging Products	(2,033)	370	1,643	-649%	-224%
Games	1,589	2,049	2,413	-22%	-34%
Corporate	(11,854)	(14,411)	(18,074)	-18%	-34%
Total	\$ (3,483)	\$ (4,784)	\$ (4,150)	-27%	-16%
Adjusted EBITDA					
Core Products	\$ 11,617	\$ 9,900	\$ 13,309	17%	-13%
Emerging Products	(1,711)	707	1,771	-342%	-197%
Games	2,275	2,748	2,885	-17%	-21%
Corporate	(8,094)	(11,133)	(12,265)	-27%	-34%
Total	\$ 4,087	\$ 2,222	\$ 5,700	84%	-28%