

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

	Quarters Ended	
	March 31,	
	2011	2010
	(in thousands, except per share data)	
Net revenue	\$ 87,301	\$ 128,600
Cost of revenue	32,066	49,159
Gross profit	55,235	79,441
Operating expenses:		
Research and development	19,895	34,675
Sales and marketing	28,480	37,827
Advertising with related party (A)	-	1,065
General and administrative	5,622	14,921
Restructuring and other charges	6,904	5,615
Total operating expenses	60,901	94,103
Operating income (loss)	(5,666)	(14,662)
Other income (expenses):		
Interest income, net	379	380
Equity in net loss of Rhapsody and other equity method investments (B)	(3,281)	-
Gain on deconsolidation of Rhapsody	-	10,929
Other income (expense), net	(122)	99
Total other income (expense), net	(3,024)	11,408
Income (loss) before income taxes	(8,690)	(3,254)
Income tax (expense) benefit	(3,615)	3,572
Net income (loss)	(12,305)	318
Net loss attributable to the noncontrolling interest in Rhapsody (C)	-	2,910
Net income (loss) attributable to common shareholders	\$ (12,305)	\$ 3,228
Basic net income (loss) per share available to common shareholders	\$ (0.09)	\$ 0.05
Diluted net income (loss) per share available to common shareholders	\$ (0.09)	\$ 0.05
Shares used to compute basic net income (loss) per share available to common shareholders	136,264	135,130
Shares used to compute diluted net income (loss) per share available to common shareholders	136,264	139,573

(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)

	March 31, 2011	December 31, 2010
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 249,108	\$ 236,018
Short-term investments	82,374	98,303
Trade accounts receivable, net	46,350	48,324
Deferred costs, current portion	8,883	9,173
Related party receivable - Rhapsody (A)	417	351
Prepaid expenses and other current assets	33,500	30,441
Total current assets	420,632	422,610
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	145,691	144,623
Leasehold improvements	25,578	25,367
Total equipment, software, and leasehold improvements	171,269	169,990
Less accumulated depreciation and amortization	129,087	126,619
Net equipment, software, and leasehold improvements	42,182	43,371
Restricted cash equivalents and investments	10,000	10,000
Equity method investments	12,236	15,486
Available for sale securities	20,484	27,541
Other assets	3,424	3,316
Deferred costs, non-current portion	17,436	18,401
Deferred tax assets, net, non-current portion	12,901	12,805
Other intangible assets, net	6,324	6,952
Goodwill	5,078	4,960
Total assets	\$ 550,697	\$ 565,442
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 24,695	\$ 30,413
Accrued and other liabilities	86,730	85,702
Deferred revenue, current portion	21,078	19,036
Accrued loss on excess office facilities, current portion	1,200	1,144
Total current liabilities	133,703	136,295
Deferred revenue, non-current portion	168	460
Accrued loss on excess office facilities, non-current portion	3,101	3,380
Deferred rent	3,268	3,514
Deferred tax liabilities, net, non-current portion	1,014	1,049
Other long-term liabilities	8,910	7,999
Total liabilities	150,164	152,697
Shareholders' equity	400,533	412,745
Total liabilities and shareholders' equity	\$ 550,697	\$ 565,442

(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)

	Quarter Ended March 31,	
	2011	2010
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (12,305)	\$ 318
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	3,819	7,314
Stock-based compensation	3,453	3,921
Gain on disposal of equipment, software, and leasehold improvements	(28)	(2)
Equity in net loss of Rhapsody and other equity method investments	3,281	-
Gain on deconsolidation of Rhapsody	-	(10,929)
Excess tax benefit from stock option exercises	(26)	(29)
Accrued restructuring and other charges	2,280	4,455
Deferred income taxes, net	(161)	(1,359)
Other	133	-
Net change in certain operating assets and liabilities, net of acquisitions and disposals	(5,632)	(36,145)
Net cash used in operating activities	<u>(5,186)</u>	<u>(32,456)</u>
Cash flows from investing activities:		
Purchases of equipment, software, and leasehold improvements	(1,165)	(4,692)
Purchases of short-term investments	(22,091)	(26,613)
Proceeds from sales and maturities of short-term investments	38,020	1,872
Payment in connection with the restructuring of Rhapsody	-	(18,000)
Repayment of temporary funding on deconsolidation of Rhapsody	-	5,869
Net cash provided by (used in) investing activities	<u>14,764</u>	<u>(41,564)</u>
Cash flows from financing activities:		
Net proceeds from sales of common stock under employee stock purchase plan and exercise of stock options	1,101	341
Payments received on MTVN note	-	1,213
Excess tax benefit from stock option exercises	26	29
Net cash provided by financing activities	<u>1,127</u>	<u>1,583</u>
Effect of exchange rate changes on cash and cash equivalents	<u>2,385</u>	<u>(1,988)</u>
Net increase (decrease) in cash and cash equivalents	13,090	(74,425)
Cash and cash equivalents, beginning of period	<u>236,018</u>	<u>277,030</u>
Cash and cash equivalents, end of period	<u>\$ 249,108</u>	<u>\$ 202,605</u>

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

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

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

Addressable subscribers of mobile operators under contract (I)	775,000	700,000	700,000	675,000	650,000
SaaS subscribers (J)	35,900	36,700	37,500	37,600	37,950
Monthly SaaS ARPU (in cents) (K)	\$ 0.18	\$ 0.20	\$ 0.16	\$ 0.16	\$ 0.16
ICM delivered in billions (L)	151	136	134	128	120
Consumer subscribers (M)	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	
	Q1	Q4	Q1
(in thousands)			
Core Products			
Net revenue	\$ 48,107	\$ 58,030	\$ 51,203
Cost of revenue	20,984	25,679	17,739
Gross profit	27,123	32,351	33,464
Gross margin	56%	56%	65%
Operating expenses	19,386	19,851	24,086
Operating income (loss)	\$ 7,737	\$ 12,500	\$ 9,378
Adjusted EBITDA	\$ 10,260	\$ 15,523	\$ 12,799
Emerging Products			
Net revenue	\$ 11,135	\$ 12,558	\$ 11,428
Cost of revenue	1,540	1,179	1,464
Gross profit	9,595	11,379	9,964
Gross margin	86%	91%	87%
Operating expenses	9,891	7,359	7,033
Operating income (loss)	\$ (296)	\$ 4,020	\$ 2,931
Adjusted EBITDA	\$ (188)	\$ 4,109	\$ 3,009
Games			
Net revenue	\$ 28,059	\$ 27,229	\$ 30,236
Cost of revenue	8,534	7,861	7,703
Gross profit	19,525	19,368	22,533
Gross margin	70%	71%	75%
Operating expenses	16,814	17,580	22,771
Operating income (loss)	\$ 2,711	\$ 1,788	\$ (238)
Adjusted EBITDA	\$ 3,340	\$ 2,452	\$ 1,685
Music			
Net revenue	\$ -	\$ -	\$ 35,733
Cost of revenue	-	-	21,864
Gross profit	-	-	13,869
Gross margin	N/A	N/A	39%
Operating expenses	-	-	13,911
Operating income (loss)	\$ -	\$ -	\$ (42)
Adjusted EBITDA	\$ -	\$ -	\$ 4,214
Corporate			
Net revenue	\$ -	\$ -	\$ -
Cost of revenue	1,008	986	389
Gross profit	(1,008)	(986)	(389)
Gross margin	N/A	N/A	N/A
Operating expenses	14,810	11,343	26,302
Operating income (loss)	\$ (15,818)	\$ (12,329)	\$ (26,691)
Adjusted EBITDA	\$ (5,870)	\$ (8,811)	\$ (15,982)
Total			
Net revenue	\$ 87,301	\$ 97,817	\$ 128,600
Cost of revenue	32,066	35,705	49,159
Gross profit	55,235	62,112	79,441
Gross margin	63%	63%	62%
Operating expenses	60,901	56,133	94,103
Operating income (loss)	\$ (5,666)	\$ 5,979	\$ (14,662)
Adjusted EBITDA	\$ 7,542	\$ 13,273	\$ 5,725

RealNetworks, Inc. and Subsidiaries

**Reconciliation of segment operating income (loss) to adjusted EBITDA by reporting segment
(Unaudited)**

	2011	2010	
	Q1	Q4	Q1
	(in thousands)		
Core Products			
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:			
Operating income (loss)	\$ 7,737	\$ 12,500	\$ 9,378
Acquisitions related intangible asset amortization	474	705	1,121
Depreciation and amortization	2,049	2,318	2,300
Impairment of goodwill	-	-	-
Adjusted EBITDA	\$ 10,260	\$ 15,523	\$ 12,799
Emerging Products			
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:			
Operating income (loss)	\$ (296)	\$ 4,020	\$ 2,931
Acquisitions related intangible asset amortization	-	-	-
Depreciation and amortization	108	89	78
Impairment of goodwill	-	-	-
Adjusted EBITDA	\$ (188)	\$ 4,109	\$ 3,009
Games			
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:			
Operating income (loss)	\$ 2,711	\$ 1,788	\$ (238)
Acquisitions related intangible asset amortization	254	263	60
Depreciation and amortization	375	401	1,863
Impairment of goodwill	-	-	-
Adjusted EBITDA	\$ 3,340	\$ 2,452	\$ 1,685
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)	\$ (15,818)	\$ (12,329)	\$ (26,691)
Other income (expense), net	(122)	144	99
Depreciation and amortization	559	577	1,074
Restructuring and other charges	6,904	874	5,615
Stock-based compensation	2,607	1,923	3,921
Loss on excess office facilities	-	-	-
Adjusted EBITDA	\$ (5,870)	\$ (8,811)	\$ (15,982)
Total			
Reconciliation of GAAP operating income (loss) to adjusted EBITDA:			
Operating income (loss)	\$ (5,666)	\$ 5,979	\$ (14,662)
Net loss attributable to noncontrolling interest in Rhapsody	-	-	2,910
Other income (expense), net	(122)	144	99
Acquisitions related intangible asset amortization (A)	728	968	1,239
Depreciation and amortization (A)	3,091	3,385	6,005
Impairment of goodwill	-	-	-
Loss on excess office facilities	-	-	-
Pro forma gain on sale of interest in Rhapsody America	-	-	598
Restructuring and other charges	6,904	874	5,615
Stock-based compensation	2,607	1,923	3,921
Adjusted EBITDA	\$ 7,542	\$ 13,273	\$ 5,725

(A) Net of noncontrolling interest effect.

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

	Quarters Ended March 31,	
	2011	2010
	(in thousands, except per share data)	
Net income (loss) attributable to common shareholders	\$ (12,305)	\$ 3,228
Less termination of MTVN's preferred return in Rhapsody	-	3,700
Net income (loss) available to common shareholders	\$ (12,305)	\$ 6,928
Shares used to compute basic net income (loss) per share available to common shareholders	136,264	135,130
Dilutive stock options and restricted stock	-	4,443
Shares used to compute diluted net income (loss) per share available to common shareholders	136,264	139,573
Basic net income (loss) per share available to common shareholders	\$ (0.09)	\$ 0.05
Diluted net income (loss) per share available to common shareholders	\$ (0.09)	\$ 0.05