

RealNetworks, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations

(Unaudited)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands, except per share data)			
Net revenue	\$ 83,752	\$ 88,884	\$ 171,053	\$ 217,484
Cost of revenue	<u>30,666</u>	<u>29,149</u>	<u>62,732</u>	<u>78,308</u>
Gross profit	<u>53,086</u>	<u>59,735</u>	<u>108,321</u>	<u>139,176</u>
Operating expenses:				
Research and development	17,809	27,583	37,704	62,258
Sales and marketing	28,853	27,382	57,333	65,209
Advertising with related party (A)	-	-	-	1,065
General and administrative	10,874	14,590	16,496	29,511
Restructuring and other charges	508	4,792	7,412	10,407
Loss (gain) on excess office facilities	<u>(174)</u>	<u>7,082</u>	<u>(174)</u>	<u>7,082</u>
Total operating expenses	<u>57,870</u>	<u>81,429</u>	<u>118,771</u>	<u>175,532</u>
Operating income (loss)	<u>(4,784)</u>	<u>(21,694)</u>	<u>(10,450)</u>	<u>(36,356)</u>
Other income (expenses):				
Interest income, net	311	551	690	931
Equity in net loss of Rhapsody and other equity method investments (B)	(1,018)	(5,427)	(4,299)	(5,427)
Loss on sale of equity investments, net	-	(50)	-	(50)
Gain on deconsolidation of Rhapsody	-	-	-	10,929
Other income (expense), net	<u>(311)</u>	<u>994</u>	<u>(433)</u>	<u>1,093</u>
Total other income (expense), net	<u>(1,018)</u>	<u>(3,932)</u>	<u>(4,042)</u>	<u>7,476</u>
Income (loss) before income taxes	(5,802)	(25,626)	(14,492)	(28,880)
Income tax (expense) benefit	<u>(1,047)</u>	<u>(281)</u>	<u>(4,662)</u>	<u>3,291</u>
Net income (loss)	(6,849)	(25,907)	(19,154)	(25,589)
Net loss attributable to the noncontrolling interest in Rhapsody (C)	-	-	-	2,910
Net income (loss) attributable to common shareholders	<u>\$ (6,849)</u>	<u>\$ (25,907)</u>	<u>\$ (19,154)</u>	<u>\$ (22,679)</u>
Basic net income (loss) per share available to common shareholders	\$ (0.05)	\$ (0.19)	\$ (0.14)	\$ (0.14)
Diluted net income (loss) per share available to common shareholders	\$ (0.05)	\$ (0.19)	\$ (0.14)	\$ (0.14)
Shares used to compute basic net income (loss) per share available to common shareholders	136,539	135,277	136,266	135,209
Shares used to compute diluted net income (loss) per share available to common shareholders	136,539	135,277	136,266	135,209

(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)

	June 30, 2011	December 31, 2010	
	(in thousands)		
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 236,730	\$ 236,018	
Short-term investments	91,142	98,303	
Trade accounts receivable, net	46,011	48,324	
Deferred costs, current portion	9,882	9,173	
Related party receivable - Rhapsody (A)	527	351	
Prepaid expenses and other current assets	24,845	30,441	
Total current assets	409,137	422,610	
Equipment, software, and leasehold improvements, at cost:			
Equipment and software	146,744	144,623	
Leasehold improvements	25,454	25,367	
Total equipment, software, and leasehold improvements	172,198	169,990	
Less accumulated depreciation and amortization	131,193	126,619	
Net equipment, software, and leasehold improvements	41,005	43,371	
Restricted cash equivalents and investments	10,141	10,000	
Equity method investments	11,397	15,486	
Available for sale securities	26,150	27,541	
Other assets	3,064	3,316	
Deferred costs, non-current portion	16,443	18,401	
Deferred tax assets, net, non-current portion	12,943	12,805	
Other intangible assets, net	9,837	6,952	
Goodwill	6,502	4,960	
Total assets	\$ 546,619	\$ 565,442	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 22,194	\$ 30,413	
Accrued and other liabilities	82,199	85,702	
Deferred revenue, current portion	18,010	19,036	
Accrued loss on excess office facilities, current portion	1,391	1,144	
Total current liabilities	123,794	136,295	
Deferred revenue, non-current portion	88	460	
Accrued loss on excess office facilities, non-current portion	2,430	3,380	
Deferred rent	3,032	3,514	
Deferred tax liabilities, net, non-current portion	2,015	1,049	
Other long-term liabilities	11,231	7,999	
Total liabilities	142,590	152,697	
Shareholders' equity	404,029	412,745	
Total liabilities and shareholders' equity	\$ 546,619	\$ 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)

	Six Month Ended June 30,	
	2011	2010
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (19,154)	\$ (25,589)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	8,116	13,973
Stock-based compensation	6,129	6,692
Loss (gain) on disposal of equipment, software, and leasehold improvements	85	(3)
Equity in net loss of Rhapsody and other equity method investments	4,299	5,427
Loss on sale of equity investment, net	-	50
Gain on deconsolidation of Rhapsody	-	(10,929)
Excess tax benefit from stock option exercises	(57)	(18)
Accrued restructuring and other charges	131	3,581
Accrued loss (gain) on excess office facilities	(174)	6,470
Deferred income taxes, net	(351)	(1,609)
Other	62	22
Net change in certain operating assets and liabilities, net of acquisitions, disposals and deconsolidation of Rhapsody	(4,576)	(54,404)
Net cash used in operating activities	(5,490)	(56,337)
Cash flows from investing activities:		
Purchases of equipment, software, and leasehold improvements	(3,134)	(9,507)
Purchases of short-term investments	(54,844)	(65,754)
Proceeds from sales and maturities of short-term investments	62,005	16,559
Payment of acquisition costs, net of cash acquired	(2,888)	-
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	998	(67,133)
Cash flows from financing activities:		
Net proceeds from sales of common stock under employee stock purchase plan and exercise of stock options	1,610	1,272
Net proceeds from sales of interest in Rhapsody	-	1,213
Excess tax benefit from stock option exercises	57	18
Net cash provided by financing activities	1,667	2,503
Effect of exchange rate changes on cash and cash equivalents	3,537	92
Net increase (decrease) in cash and cash equivalents	712	(120,875)
Cash and cash equivalents, beginning of period	236,018	277,030
Cash and cash equivalents, end of period	\$ 236,730	\$ 156,155

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

	2011		2010			
	Q2	Q1	Q4	Q3 (in thousands)	Q2	Q1
Net Revenue by Line of Business:						
Core Products (A)	\$ 45,735	\$ 48,107	\$ 58,030	\$ 51,870	\$ 51,742	\$ 51,203
Emerging Products (B)	12,717	11,135	12,558	8,778	8,997	11,428
Games (C)	25,300	28,059	27,229	25,784	28,145	30,236
Total net revenue excluding music	83,752	87,301	97,817	86,432	88,884	92,867
Music (D)	-	-	-	-	-	35,733
Total net revenue including music	\$ 83,752	\$ 87,301	\$ 97,817	\$ 86,432	\$ 88,884	\$ 128,600
Core Products Revenue by Product:						
SaaS (E)	\$ 30,216	\$ 30,526	\$ 35,656	\$ 31,885	\$ 32,388	\$ 33,614
Systems Integrations / Professional Services (F)	388	1,840	4,388	953	998	367
Technology Licensing (G)	6,508	6,425	7,632	7,473	7,736	7,910
Consumer Subscriptions (H)	8,623	9,316	10,354	11,559	10,620	9,312
Total Core Products net revenue	\$ 45,735	\$ 48,107	\$ 58,030	\$ 51,870	\$ 51,742	\$ 51,203
Net Revenue by Geography:						
United States	\$ 41,984	\$ 44,469	\$ 48,048	\$ 46,874	\$ 48,351	\$ 84,550
Rest of world	41,768	42,832	49,769	39,558	40,533	44,050
Total net revenue	\$ 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)	775,000	775,000	700,000	700,000	675,000	650,000
SaaS subscribers (J)	34,550	35,900	36,700	37,500	37,600	37,950
Monthly SaaS ARPU (in cents) (K)	\$ 0.18	\$ 0.18	\$ 0.20	\$ 0.16	\$ 0.16	\$ 0.16
ICM delivered in billions (L)	157	151	136	134	128	120
Consumer subscribers(M)	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	2011	2010
	Q2	Q1	Q2	YTD	YTD
(in thousands)					
Core Products					
Net revenue	\$ 45,735	\$ 48,107	\$ 51,742	\$ 93,842	\$ 102,945
Cost of revenue	19,353	20,984	18,085	40,337	35,824
Gross profit	26,382	27,123	33,657	53,505	67,121
Gross margin	58%	56%	65%	57%	65%
Operating expenses	19,174	19,386	22,508	38,560	46,594
Operating income (loss)	\$ 7,208	\$ 7,737	\$ 11,149	\$ 14,945	\$ 20,527
Adjusted EBITDA	\$ 9,900	\$ 10,260	\$ 14,675	\$ 20,160	\$ 27,474
Emerging Products					
Net revenue	\$ 12,717	\$ 11,135	\$ 8,997	\$ 23,852	\$ 20,425
Cost of revenue	2,978	1,540	3,404	4,518	4,868
Gross profit	9,739	9,595	5,593	19,334	15,557
Gross margin	77%	86%	62%	81%	76%
Operating expenses	9,369	9,891	7,602	19,260	14,635
Operating income (loss)	\$ 370	\$ (296)	\$ (2,009)	\$ 74	\$ 922
Adjusted EBITDA	\$ 707	\$ (188)	\$ (1,732)	\$ 519	\$ 1,277
Games					
Net revenue	\$ 25,300	\$ 28,059	\$ 28,145	\$ 53,359	\$ 58,381
Cost of revenue	8,040	8,534	7,228	16,574	14,931
Gross profit	17,260	19,525	20,917	36,785	43,450
Gross margin	68%	70%	74%	69%	74%
Operating expenses	15,211	16,814	20,832	32,025	43,603
Operating income (loss)	\$ 2,049	\$ 2,711	\$ 85	\$ 4,760	\$ (153)
Adjusted EBITDA	\$ 2,748	\$ 3,340	\$ 1,948	\$ 6,088	\$ 3,633
Music					
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ 35,733
Cost of revenue	-	-	-	-	21,864
Gross profit	-	-	-	-	13,869
Gross margin	N/A	N/A	N/A	N/A	39%
Operating expenses	-	-	-	-	13,911
Operating income (loss)	\$ -	\$ -	\$ -	\$ -	\$ (42)
Adjusted EBITDA	\$ -	\$ -	\$ -	\$ -	\$ 4,214
Corporate					
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of revenue	295	1,008	432	1,303	821
Gross profit	(295)	(1,008)	(432)	(1,303)	(821)
Gross margin	N/A	N/A	N/A	N/A	N/A
Operating expenses	14,116	14,810	30,487	28,926	56,789
Operating income (loss)	\$ (14,411)	\$ (15,818)	\$ (30,919)	\$ (30,229)	\$ (57,610)
Adjusted EBITDA	\$ (11,133)	\$ (5,870)	\$ (14,287)	\$ (17,003)	\$ (30,269)
Total					
Net revenue	\$ 83,752	\$ 87,301	\$ 88,884	\$ 171,053	\$ 217,484
Cost of revenue	30,666	32,066	29,149	62,732	78,308
Gross profit	53,086	55,235	59,735	108,321	139,176
Gross margin	63%	63%	67%	63%	64%
Operating expenses	57,870	60,901	81,429	118,771	175,532
Operating income (loss)	\$ (4,784)	\$ (5,666)	\$ (21,694)	\$ (10,450)	\$ (36,356)
Adjusted EBITDA	\$ 2,222	\$ 7,542	\$ 604	\$ 9,764	\$ 6,329

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

	2011		2010	2011	2010
	Q2	Q1	Q2	YTD	YTD
Core Products					
(in thousands)					
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:					
Operating income (loss)	\$ 7,208	\$ 7,737	\$ 11,149	\$ 14,945	\$ 20,527
Acquisitions related intangible asset amortization	710	474	1,106	1,184	2,227
Depreciation and amortization	1,982	2,049	2,420	4,031	4,720
Impairment of goodwill	-	-	-	-	-
Adjusted EBITDA	\$ 9,900	\$ 10,260	\$ 14,675	\$ 20,160	\$ 27,474
Emerging Products					
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:					
Operating income (loss)	\$ 370	\$ (296)	\$ (2,009)	\$ 74	\$ 922
Acquisitions related intangible asset amortization	53	-	-	53	-
Depreciation and amortization	284	108	277	392	355
Impairment of goodwill	-	-	-	-	-
Adjusted EBITDA	\$ 707	\$ (188)	\$ (1,732)	\$ 519	\$ 1,277
Games					
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:					
Operating income (loss)	\$ 2,049	\$ 2,711	\$ 85	\$ 4,760	\$ (153)
Acquisitions related intangible asset amortization	256	254	61	510	121
Depreciation and amortization	443	375	1,802	818	3,665
Impairment of goodwill	-	-	-	-	-
Adjusted EBITDA	\$ 2,748	\$ 3,340	\$ 1,948	\$ 6,088	\$ 3,633
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)	\$ (14,411)	\$ (15,818)	\$ (30,919)	\$ (30,229)	\$ (57,610)
Other income (expense), net	(311)	(122)	994	(433)	1,093
Depreciation and amortization	569	559	993	1,128	2,067
Restructuring and other charges	508	6,904	4,792	7,412	10,407
Stock-based compensation	2,686	2,607	2,771	5,293	6,692
Loss on excess office facilities	(174)	-	7,082	(174)	7,082
Adjusted EBITDA	\$ (11,133)	\$ (5,870)	\$ (14,287)	\$ (17,003)	\$ (30,269)
Total					
Reconciliation of GAAP operating income (loss) to adjusted EBITDA:					
Operating income (loss)	\$ (4,784)	\$ (5,666)	\$ (21,694)	\$ (10,450)	\$ (36,356)
Net loss attributable to noncontrolling interest in Rhapsody	-	-	-	-	2,910
Other income (expense), net	(311)	(122)	994	(433)	1,093
Acquisitions related intangible asset amortization (A)	1,019	728	1,167	1,747	2,406
Depreciation and amortization (A)	3,278	3,091	5,492	6,369	11,497
Impairment of goodwill	-	-	-	-	-
Loss on excess office facilities	(174)	-	7,082	(174)	7,082
Pro forma gain on sale of interest in Rhapsody America	-	-	-	-	598
Restructuring and other charges	508	6,904	4,792	7,412	10,407
Stock-based compensation	2,686	2,607	2,771	5,293	6,692
Adjusted EBITDA	\$ 2,222	\$ 7,542	\$ 604	\$ 9,764	\$ 6,329

(A) Net of noncontrolling interest effect.

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

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	(in thousands, except per share data)			
Net income (loss) attributable to common shareholders	\$ (6,849)	\$ (25,907)	\$ (19,154)	\$ (22,679)
Less termination of MTVN's preferred return in Rhapsody	-	-	-	3,700
Net income (loss) available to common shareholders	<u>\$ (6,849)</u>	<u>\$ (25,907)</u>	<u>\$ (19,154)</u>	<u>\$ (18,979)</u>
Shares used to compute basic net income (loss) per share available to common shareholders	136,539	135,277	136,266	135,209
Dilutive stock options and restricted stock	-	-	-	-
Shares used to compute diluted net income (loss) per share available to common shareholders	<u>136,539</u>	<u>135,277</u>	<u>136,266</u>	<u>135,209</u>
Basic net income (loss) per share available to common shareholders	\$ (0.05)	\$ (0.19)	\$ (0.14)	\$ (0.14)
Diluted net income (loss) per share available to common shareholders	\$ (0.05)	\$ (0.19)	\$ (0.14)	\$ (0.14)