

RealNetworks, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations

(Unaudited)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands, except per share data)			
Net revenue	\$ 65,526	\$ 83,752	\$ 132,490	\$ 171,053
Cost of revenue	25,962	30,666	53,389	62,732
Gross profit	<u>39,564</u>	<u>53,086</u>	<u>79,101</u>	<u>108,321</u>
Sale of patents and other technology assets, net of costs (A)	117,933	-	116,353	-
Operating expenses:				
Research and development	16,028	17,809	33,846	37,704
Sales and marketing	22,694	28,853	46,490	57,333
General and administrative	13,068	10,874	26,344	16,496
Restructuring and other charges	1,539	508	3,148	7,412
Loss (gain) on excess office facilities	-	(174)	-	(174)
Total operating expenses	<u>53,329</u>	<u>57,870</u>	<u>109,828</u>	<u>118,771</u>
Operating income (loss)	<u>104,168</u>	<u>(4,784)</u>	<u>85,626</u>	<u>(10,450)</u>
Other income (expenses):				
Interest income, net	225	311	869	690
Gain (loss) on sale of equity and other investments, net	3,078	-	3,078	-
Equity in net loss of Rhapsody investment	(2,114)	(1,018)	(2,482)	(4,299)
Other income (expense), net	(49)	(311)	1,426	(433)
Total other income (expense), net	<u>1,140</u>	<u>(1,018)</u>	<u>2,891</u>	<u>(4,042)</u>
Income (loss) before income taxes	105,308	(5,802)	88,517	(14,492)
Income tax (expense) benefit	<u>(24,311)</u>	<u>(1,047)</u>	<u>(24,535)</u>	<u>(4,662)</u>
Net income (loss)	<u>\$ 80,997</u>	<u>\$ (6,849)</u>	<u>\$ 63,982</u>	<u>\$ (19,154)</u>
Basic net income (loss) per share	\$ 2.33	\$ (0.20)	\$ 1.85	\$ (0.56)
Diluted net income (loss) per share	\$ 2.32	\$ (0.20)	\$ 1.83	\$ (0.56)
Shares used to compute basic net income (loss) per share	34,752	34,135	34,620	34,067
Shares used to compute diluted net income (loss) per share	34,900	34,135	34,914	34,067

(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>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
	<u>(in thousands)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 199,540	\$ 106,333
Short-term investments	83,406	78,739
Trade accounts receivable, net	38,512	41,165
Deferred costs, current portion	1,701	1,424
Prepaid expenses and other current assets	17,933	21,902
Total current assets	<u>341,092</u>	<u>249,563</u>
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	106,391	104,352
Leasehold improvements	26,130	25,947
Total equipment, software, and leasehold improvements	<u>132,521</u>	<u>130,299</u>
Less accumulated depreciation and amortization	<u>94,975</u>	<u>92,825</u>
Net equipment, software, and leasehold improvements	37,546	37,474
Restricted cash equivalents and investments	10,174	10,168
Equity method investments	5,316	7,798
Available for sale securities	32,296	37,204
Other assets	3,088	2,954
Deferred costs, non-current portion	276	843
Deferred tax assets, net, non-current portion	4,535	18,419
Other intangible assets, net	5,050	7,169
Goodwill	6,188	6,198
Total assets	<u>\$ 445,561</u>	<u>\$ 377,790</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 22,443	\$ 17,151
Accrued and other liabilities	63,053	59,194
Deferred revenue, current portion	10,187	11,835
Accrued loss on excess office facilities, current portion	593	596
Total current liabilities	<u>96,276</u>	<u>88,776</u>
Deferred revenue, non-current portion	185	195
Accrued loss on excess office facilities, non-current portion	1,536	2,151
Deferred rent	2,692	2,944
Deferred tax liabilities, net, non-current portion	1,132	1,443
Other long-term liabilities	9,871	10,994
Total liabilities	<u>111,692</u>	<u>106,503</u>
Shareholders' equity	<u>333,869</u>	<u>271,287</u>
Total liabilities and shareholders' equity	<u>\$ 445,561</u>	<u>\$ 377,790</u>

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

	Six Months Ended June 30,	
	2012	2011
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 63,982	\$ (19,154)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	8,162	8,116
Stock-based compensation	4,065	6,129
Equity in net loss of Rhapsody investment	2,482	4,299
Excess tax benefit from stock option exercises	-	(57)
Deferred income taxes, net	22,496	(351)
Gain on sale of patent and other technology assets, net of costs	(116,353)	-
Gain on sale of equity and other investments, net	(3,078)	-
Realized translation gain	(1,611)	-
Other	(79)	147
Net change in certain operating assets and liabilities	2,493	(4,619)
Net cash provided by (used in) operating activities	<u>(17,441)</u>	<u>(5,490)</u>
Cash flows from investing activities:		
Purchases of equipment, software, and leasehold improvements	(4,989)	(3,134)
Proceeds from sale of patents and other technology assets, net of costs	116,353	-
Proceeds from sale of equity and other investments	4,165	-
Purchases of short-term investments	(18,637)	(54,844)
Proceeds from sales and maturities of short-term investments	13,970	62,005
Decrease (increase) in restricted cash equivalents and investments, net	(5)	(141)
Payment of acquisition costs, net of cash acquired	-	(2,888)
Net cash provided by (used in) investing activities	<u>110,857</u>	<u>998</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock (stock options and stock purchase plan)	1,221	1,610
Tax payments from shares withheld upon vesting of restricted stock	(884)	-
Excess tax benefit from stock option exercises	-	57
Net cash provided by (used in) financing activities	<u>337</u>	<u>1,667</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(546)</u>	<u>3,537</u>
Net increase (decrease) in cash and cash equivalents	93,207	712
Cash and cash equivalents, beginning of period	<u>106,333</u>	<u>236,018</u>
Cash and cash equivalents, end of period	<u>\$ 199,540</u>	<u>\$ 236,730</u>

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

	2012		2011			
	Q2	Q1	Q4	Q3	Q2	Q1
(in thousands)						
Net Revenue by Line of Business:						
Core Products (A)	\$ 38,250	\$ 37,697	\$ 46,693	\$ 50,705	\$ 45,735	\$ 48,107
Emerging Products (B)	9,913	10,159	11,974	10,764	12,717	11,135
Games (C)	17,363	19,108	21,552	22,945	25,300	28,059
Total net revenue	\$ 65,526	\$ 66,964	\$ 80,219	\$ 84,414	\$ 83,752	\$ 87,301
Core Products Revenue by Product:						
SaaS (D)	\$ 23,286	\$ 23,463	\$ 28,255	\$ 30,381	\$ 30,216	\$ 30,526
Systems Integration / Professional Services (E)	965	426	771	3,844	388	1,840
Technology Licensing (F)	7,189	6,207	9,246	6,250	6,508	6,425
Consumer Subscriptions (G)	6,810	7,601	8,421	10,230	8,623	9,316
Total Core Products net revenue	\$ 38,250	\$ 37,697	\$ 46,693	\$ 50,705	\$ 45,735	\$ 48,107
Net Revenue by Geography:						
United States	\$ 28,614	\$ 31,814	\$ 37,298	\$ 38,969	\$ 41,984	\$ 44,469
Rest of world	36,912	35,150	42,921	45,445	41,768	42,832
Total net revenue	\$ 65,526	\$ 66,964	\$ 80,219	\$ 84,414	\$ 83,752	\$ 87,301
Product Metrics (subscribers and ICM presented as greater than):						
Addressable subscribers of mobile operators under contract (H)	725,000	725,000	725,000	700,000	775,000	775,000
SaaS subscribers (I)	30,600	30,500	30,050	34,000	34,550	35,900
Monthly SaaS ARPU (in cents) (J)	\$ 0.16	\$ 0.15	\$ 0.19	\$ 0.17	\$ 0.18	\$ 0.18
ICM delivered in billions (K)	162	166	165	162	157	151
Consumer subscribers(L)	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
	Q2	Q1	Q2	YTD	YTD
(in thousands)					
Core Products					
Net revenue	\$ 38,250	\$ 37,697	\$ 45,735	\$ 75,947	\$ 93,842
Cost of revenue	17,681	17,828	19,353	35,509	40,337
Gross profit	20,569	19,869	26,382	40,438	53,505
Gross margin	54%	53%	58%	53%	57%
Operating expenses	16,429	18,068	19,174	34,497	38,560
Operating income (loss)	\$ 4,140	\$ 1,801	\$ 7,208	\$ 5,941	\$ 14,945
Adjusted EBITDA	\$ 6,628	\$ 4,400	\$ 9,900	\$ 11,028	\$ 20,160
Emerging Products					
Net revenue	\$ 9,913	\$ 10,159	\$ 12,717	\$ 20,072	\$ 23,852
Cost of revenue	1,800	2,105	2,978	3,905	4,518
Gross profit	8,113	8,054	9,739	16,167	19,334
Gross margin	82%	79%	77%	81%	81%
Operating expenses	7,092	7,546	9,369	14,638	19,260
Operating income (loss)	\$ 1,021	\$ 508	\$ 370	\$ 1,529	\$ 74
Adjusted EBITDA	\$ 1,266	\$ 754	\$ 707	\$ 2,020	\$ 519
Games					
Net revenue	\$ 17,363	\$ 19,108	\$ 25,300	\$ 36,471	\$ 53,359
Cost of revenue	5,572	6,661	8,040	12,233	16,574
Gross profit	11,791	12,447	17,260	24,238	36,785
Gross margin	68%	65%	68%	66%	69%
Operating expenses	13,093	13,430	15,211	26,523	32,025
Operating income (loss)	\$ (1,302)	\$ (983)	\$ 2,049	\$ (2,285)	\$ 4,760
Adjusted EBITDA	\$ (619)	\$ (324)	\$ 2,748	\$ (943)	\$ 6,088
Corporate					
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of revenue	909	833	295	1,742	1,303
Gross profit	(909)	(833)	(295)	(1,742)	(1,303)
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	(1,580)	-	116,353	-
Operating expenses	16,715	17,455	14,116	34,170	28,926
Operating income (loss)	\$ 100,309	\$ (19,868)	\$ (14,411)	\$ 80,441	\$ (30,229)
Adjusted EBITDA	\$ (13,784)	\$ (12,247)	\$ (11,133)	\$ (26,031)	\$ (17,003)
Total					
Net revenue	\$ 65,526	\$ 66,964	\$ 83,752	\$ 132,490	\$ 171,053
Cost of revenue	25,962	27,427	30,666	53,389	62,732
Gross profit	39,564	39,537	53,086	79,101	108,321
Gross margin	60%	59%	63%	60%	63%
Gain on sale of patents and other technology assets, net of costs	117,933	(1,580)	-	116,353	-
Operating expenses	53,329	56,499	57,870	109,828	118,771
Operating income (loss)	\$ 104,168	\$ (18,542)	\$ (4,784)	\$ 85,626	\$ (10,450)
Adjusted EBITDA	\$ (6,509)	\$ (7,417)	\$ 2,222	\$ (13,926)	\$ 9,764

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

	2012		2011		2010	
	Q2	Q1	Q2	YTD	YTD	YTD
	(in thousands)					
Core Products						
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:						
Operating income (loss)	\$ 4,140	\$ 1,801	\$ 7,208	\$ 5,941	\$ 14,945	
Acquisitions related intangible asset amortization	786	802	710	1,588	1,184	
Depreciation and amortization	1,702	1,797	1,982	3,499	4,031	
Adjusted EBITDA	\$ 6,628	\$ 4,400	\$ 9,900	\$ 11,028	\$ 20,160	
Emerging Products						
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:						
Operating income (loss)	\$ 1,021	\$ 508	\$ 370	\$ 1,529	\$ 74	
Acquisitions related intangible asset amortization	79	79	53	158	53	
Depreciation and amortization	166	167	284	333	392	
Adjusted EBITDA	\$ 1,266	\$ 754	\$ 707	\$ 2,020	\$ 519	
Games						
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:						
Operating income (loss)	\$ (1,302)	\$ (983)	\$ 2,049	\$ (2,285)	\$ 4,760	
Acquisitions related intangible asset amortization	207	209	256	416	510	
Depreciation and amortization	476	450	443	926	818	
Adjusted EBITDA	\$ (619)	\$ (324)	\$ 2,748	\$ (943)	\$ 6,088	
Corporate						
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:						
Operating income (loss)	\$ 100,309	\$ (19,868)	\$ (14,411)	\$ 80,441	\$ (30,229)	
Other income (expense), net	(49)	1,475	(311)	1,426	(433)	
Depreciation and amortization	628	614	569	1,242	1,128	
Restructuring and other charges	1,539	1,609	508	3,148	7,412	
Stock-based compensation	1,722	2,343	2,686	4,065	5,293	
Gain on sale of patents and other technology assets, net of costs	(117,933)	1,580	-	(116,353)	-	
Loss (Gain) on excess office facilities	-	-	(174)	-	(174)	
Adjusted EBITDA	\$ (13,784)	\$ (12,247)	\$ (11,133)	\$ (26,031)	\$ (17,003)	
Total						
Reconciliation of GAAP operating income (loss) to adjusted EBITDA:						
Operating income (loss)	\$ 104,168	\$ (18,542)	\$ (4,784)	\$ 85,626	\$ (10,450)	
Other income (expense), net	(49)	1,475	(311)	1,426	(433)	
Acquisitions related intangible asset amortization	1,072	1,090	1,019	2,162	1,747	
Depreciation and amortization	2,972	3,028	3,278	6,000	6,369	
Loss (Gain) on excess office facilities	-	-	(174)	-	(174)	
Restructuring and other charges	1,539	1,609	508	3,148	7,412	
Stock-based compensation	1,722	2,343	2,686	4,065	5,293	
Gain on sale of patents and other technology assets, net of costs	(117,933)	1,580	-	(116,353)	-	
Adjusted EBITDA	\$ (6,509)	\$ (7,417)	\$ 2,222	\$ (13,926)	\$ 9,764	