

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

	Quarters Ended March 31,	
	2012	2011
	(in thousands, except per share data)	
Net revenue	\$ 66,964	\$ 87,301
Cost of revenue	27,427	32,066
Gross profit	<u>39,537</u>	<u>55,235</u>
Sale of patents and other technology assets, net of costs (A)	(1,580)	-
Operating expenses:		
Research and development	17,818	19,895
Sales and marketing	23,796	28,480
General and administrative	13,276	5,622
Restructuring and other charges	<u>1,609</u>	<u>6,904</u>
Total operating expenses	<u>56,499</u>	<u>60,901</u>
Operating income (loss)	<u>(18,542)</u>	<u>(5,666)</u>
Other income (expenses):		
Interest income, net	644	379
Equity in net loss of Rhapsody investment	(368)	(3,281)
Other income (expense), net	<u>1,475</u>	<u>(122)</u>
Total other income (expense), net	<u>1,751</u>	<u>(3,024)</u>
Income (loss) before income taxes	(16,791)	(8,690)
Income tax (expense) benefit	<u>(224)</u>	<u>(3,615)</u>
Net income (loss) attributable to common shareholders	<u>\$ (17,015)</u>	<u>\$ (12,305)</u>
Basic net income (loss) per share	\$ (0.49)	\$ (0.36)
Diluted net income (loss) per share	\$ (0.49)	\$ (0.36)
Shares used to compute basic net income (loss) per share	34,488	34,066
Shares used to compute diluted net income (loss) per share	34,488	34,066

(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. Because the transaction closed subsequent to March 31, 2012, the gain on the transaction will be reflected in our financial statements for the second quarter of 2012. For the first quarter of 2012, \$1.6 million of direct costs of the transaction were incurred.

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

	<u>March 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
(in thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 83,332	\$ 106,333
Short-term investments	83,681	78,739
Trade accounts receivable, net	40,160	41,165
Deferred costs, current portion	1,338	1,424
Prepaid expenses and other current assets	24,984	21,902
Total current assets	<u>233,495</u>	<u>249,563</u>
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	108,173	104,352
Leasehold improvements	26,224	25,947
Total equipment, software, and leasehold improvements	<u>134,397</u>	<u>130,299</u>
Less accumulated depreciation and amortization	<u>95,672</u>	<u>92,825</u>
Net equipment, software, and leasehold improvements	38,725	37,474
Restricted cash equivalents and investments	10,173	10,168
Equity method investments	7,430	7,798
Available for sale securities	45,630	37,204
Other assets	2,960	2,954
Deferred costs, non-current portion	691	843
Deferred tax assets, net, non-current portion	18,320	18,419
Other intangible assets, net	6,177	7,169
Goodwill	6,297	6,198
Total assets	<u>\$ 369,898</u>	<u>\$ 377,790</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 17,935	\$ 17,151
Accrued and other liabilities	58,783	59,194
Deferred revenue, current portion	11,270	11,835
Accrued loss on excess office facilities, current portion	505	596
Total current liabilities	<u>88,493</u>	<u>88,776</u>
Deferred revenue, non-current portion	220	195
Accrued loss on excess office facilities, non-current portion	1,843	2,151
Deferred rent	2,867	2,944
Deferred tax liabilities, net, non-current portion	1,217	1,443
Other long-term liabilities	9,884	10,994
Total liabilities	<u>104,524</u>	<u>106,503</u>
Shareholders' equity	<u>265,374</u>	<u>271,287</u>
Total liabilities and shareholders' equity	<u>\$ 369,898</u>	<u>\$ 377,790</u>

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

	Quarters Ended March 31,	
	2012	2011
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (17,015)	\$ (12,305)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	4,118	3,819
Stock-based compensation	2,343	3,453
Equity in net loss of Rhapsody investment	368	3,281
Excess tax benefit from stock option exercises	-	(26)
Deferred income taxes, net	(19)	(161)
Realized translation gain	(1,611)	-
Other	(3)	105
Net change in certain operating assets and liabilities	(5,423)	(3,352)
Net cash provided by (used in) operating activities	(17,242)	(5,186)
Cash flows from investing activities:		
Purchases of equipment, software, and leasehold improvements	(2,798)	(1,165)
Purchases of short-term investments	(9,969)	(22,091)
Proceeds from sales and maturities of short-term investments	5,027	38,020
Net cash provided by (used in) investing activities	(7,740)	14,764
Cash flows from financing activities:		
Proceeds from issuance of common stock (stock options and stock purchase plan)	675	1,101
Excess tax benefit from stock option exercises	-	26
Net cash provided by (used in) financing activities	675	1,127
Effect of exchange rate changes on cash and cash equivalents	1,306	2,385
Net increase (decrease) in cash and cash equivalents	(23,001)	13,090
Cash and cash equivalents, beginning of period	106,333	236,018
Cash and cash equivalents, end of period	\$ 83,332	\$ 249,108

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

	2012		2011			
	Q1	Q4	Q3	Q2	Q1	
	(in thousands)					
Net Revenue by Line of Business:						
Core Products (A)	\$ 37,697	\$ 46,693	\$ 50,705	\$ 45,735	\$ 48,107	
Emerging Products (B)	10,159	11,974	10,764	12,717	11,135	
Games (C)	19,108	21,552	22,945	25,300	28,059	
Total net revenue	\$ 66,964	\$ 80,219	\$ 84,414	\$ 83,752	\$ 87,301	
Core Products Revenue by Product:						
SaaS (D)	\$ 23,463	\$ 28,255	\$ 30,381	\$ 30,216	\$ 30,526	
Systems Integration / Professional Services (E)	426	771	3,844	388	1,840	
Technology Licensing (F)	6,207	9,246	6,250	6,508	6,425	
Consumer Subscriptions (G)	7,601	8,421	10,230	8,623	9,316	
Total Core Products net revenue	\$ 37,697	\$ 46,693	\$ 50,705	\$ 45,735	\$ 48,107	
Net Revenue by Geography:						
United States	\$ 31,814	\$ 37,298	\$ 38,969	\$ 41,984	\$ 44,469	
Rest of world	35,150	42,921	45,445	41,768	42,832	
Total net revenue	\$ 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	700,000	775,000	775,000	
SaaS subscribers (I)	30,500	30,050	34,000	34,550	35,900	
Monthly SaaS ARPU (in cents) (J)	\$ 0.15	\$ 0.19	\$ 0.17	\$ 0.18	\$ 0.18	
ICM delivered in billions (K)	166	165	162	157	151	
Consumer subscribers(L)	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	
	Q1	Q4	Q1
Core Products			
Net revenue	\$ 37,697	\$ 46,693	\$ 48,107
Cost of revenue	17,828	20,867	20,984
Impairment of deferred costs	-	19,329	-
Gross profit	19,869	6,497	27,123
Gross margin	53%	14%	56%
Operating expenses	18,068	17,230	19,386
Operating income (loss)	\$ 1,801	\$ (10,733)	\$ 7,737
Adjusted EBITDA	\$ 4,400	\$ 11,382	\$ 10,260
Emerging Products			
Net revenue	\$ 10,159	\$ 11,974	\$ 11,135
Cost of revenue	2,105	3,448	1,540
Impairment of deferred costs	-	633	-
Gross profit	8,054	7,893	9,595
Gross margin	79%	66%	86%
Operating expenses	7,546	7,867	9,891
Operating income (loss)	\$ 508	\$ 26	\$ (296)
Adjusted EBITDA	\$ 754	\$ 986	\$ (188)
Games			
Net revenue	\$ 19,108	\$ 21,552	\$ 28,059
Cost of revenue	6,661	6,875	8,534
Gross profit	12,447	14,677	19,525
Gross margin	65%	68%	70%
Operating expenses	13,430	14,449	16,814
Operating income (loss)	\$ (983)	\$ 228	\$ 2,711
Adjusted EBITDA	\$ (324)	\$ 883	\$ 3,340
Corporate			
Net revenue	\$ -	\$ -	\$ -
Cost of revenue	833	899	1,008
Gross profit	(833)	(899)	(1,008)
Gross margin	N/A	N/A	N/A
Sale of patents and other technology assets, net of costs	1,580	-	-
Operating expenses	17,455	12,299	14,810
Operating income (loss)	\$ (19,868)	\$ (13,198)	\$ (15,818)
Adjusted EBITDA	\$ (12,247)	\$ (9,411)	\$ (5,870)
Total			
Net revenue	\$ 66,964	\$ 80,219	\$ 87,301
Cost of revenue	27,427	32,089	32,066
Impairment of deferred costs	-	19,962	-
Gross profit	39,537	28,168	55,235
Gross margin	59%	35%	63%
Sale of patents and other technology assets, net of costs	1,580	-	-
Operating expenses	56,499	51,845	60,901
Operating income (loss)	\$ (18,542)	\$ (23,677)	\$ (5,666)
Adjusted EBITDA	\$ (7,417)	\$ 3,840	\$ 7,542

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

	2012 Q1	2011 Q4 Q1	
Core Products			
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:			
Operating income (loss)	\$ 1,801	\$ (10,733)	\$ 7,737
Acquisitions related intangible asset amortization	802	789	474
Depreciation and amortization	1,797	1,997	2,049
Impairment of deferred costs	-	19,329	-
Adjusted EBITDA	<u>\$ 4,400</u>	<u>\$ 11,382</u>	<u>\$ 10,260</u>
Emerging Products			
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:			
Operating income (loss)	\$ 508	\$ 26	\$ (296)
Acquisitions related intangible asset amortization	79	79	-
Depreciation and amortization	167	248	108
Impairment of deferred costs	-	633	-
Adjusted EBITDA	<u>\$ 754</u>	<u>\$ 986</u>	<u>\$ (188)</u>
Games			
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:			
Operating income (loss)	\$ (983)	\$ 228	\$ 2,711
Acquisitions related intangible asset amortization	209	229	254
Depreciation and amortization	450	426	375
Adjusted EBITDA	<u>\$ (324)</u>	<u>\$ 883</u>	<u>\$ 3,340</u>
Corporate			
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:			
Operating income (loss)	\$ (19,868)	\$ (13,198)	\$ (15,818)
Other income (expense), net	1,475	188	(122)
Depreciation and amortization	614	608	559
Restructuring and other charges	1,609	800	6,904
Stock-based compensation	2,343	2,663	2,607
Sale of patents and other technology assets, net of costs	1,580	-	-
Gain on excess office facilities	-	(472)	-
Adjusted EBITDA	<u>\$ (12,247)</u>	<u>\$ (9,411)</u>	<u>\$ (5,870)</u>
Total			
Reconciliation of GAAP operating income (loss) to adjusted EBITDA:			
Operating income (loss)	\$ (18,542)	\$ (23,677)	\$ (5,666)
Other income (expense), net	1,475	188	(122)
Acquisitions related intangible asset amortization	1,090	1,097	728
Depreciation and amortization	3,028	3,279	3,091
Gain on excess office facilities	-	(472)	-
Restructuring and other charges	1,609	800	6,904
Stock-based compensation	2,343	2,663	2,607
Impairment of deferred costs	-	19,962	-
Sale of patents and other technology assets, net of costs	1,580	-	-
Adjusted EBITDA	<u>\$ (7,417)</u>	<u>\$ 3,840</u>	<u>\$ 7,542</u>