

RealNetworks, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations

(Unaudited)

	Quarters Ended December 31,		Years Ended December 31,	
	2010	2009	2010	2009
	(in thousands, except per share data)			
Net revenue	\$ 97,817	\$ 145,502	\$ 401,733	\$ 562,264
Cost of revenue	35,705	56,821	144,723	222,142
Gross profit	62,112	88,681	257,010	340,122
Operating expenses:				
Research and development	19,180	32,541	100,955	119,448
Sales and marketing	27,013	40,325	118,543	165,856
Advertising with related party (A)	-	11,063	1,065	33,292
General and administrative	9,066	23,956	51,217	79,164
Impairment of goodwill	-	-	-	175,583
Restructuring and other charges	874	2,346	12,361	4,017
Loss on excess office facilities	-	-	7,396	-
Total operating expenses	56,133	110,231	291,537	577,360
Operating income (loss)	5,979	(21,550)	(34,527)	(237,238)
Other income (expenses):				
Interest income, net	412	779	2,417	3,969
Equity in net loss of Rhapsody and other equity method investments (B)	(4,595)	(116)	(16,164)	(1,313)
Gain (loss) on sale of equity investments, net	41	(121)	(9)	688
Impairment of equity investments	-	(5,020)	-	(5,020)
Gain on deconsolidation of Rhapsody	-	-	10,929	-
Other income (expense), net	144	(312)	1,031	(794)
Total other income (expense), net	(3,998)	(4,790)	(1,796)	(2,470)
Income (loss) before income taxes	1,981	(26,340)	(36,323)	(239,708)
Income tax (expense) benefit	(787)	124	36,451	(3,321)
Net income (loss)	1,194	(26,216)	128	(243,029)
Net loss attributable to the noncontrolling interest in Rhapsody (C)	-	8,397	2,910	26,265
Net income (loss) attributable to common shareholders	\$ 1,194	\$ (17,819)	\$ 3,038	\$ (216,764)
Basic net income (loss) per share available to common shareholders	\$ 0.01	\$ (0.14)	\$ 0.05	\$ (1.64)
Diluted net income (loss) per share available to common shareholders	\$ 0.01	\$ (0.14)	\$ 0.05	\$ (1.64)
Shares used to compute basic net income (loss) per share available to common shareholders	135,853	134,844	135,577	134,612
Shares used to compute diluted net income (loss) per share available to common shareholders	136,133	134,844	136,053	134,612

(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 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."

(C) 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>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 236,018	\$ 277,030
Short-term investments	98,303	107,870
Trade accounts receivable, net	48,324	60,937
Deferred costs, current portion	9,173	5,192
Related party receivable - Rhapsody (A)	1,139	-
Prepaid expenses and other current assets	32,040	30,624
Total current assets	424,997	481,653
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	144,623	151,951
Leasehold improvements	25,367	31,041
Total equipment, software, and leasehold improvements	169,990	182,992
Less accumulated depreciation and amortization	126,619	125,878
Net equipment, software, and leasehold improvements	43,371	57,114
Restricted cash equivalents and investments	10,000	13,700
Equity investments	41,027	19,553
Other assets	3,316	4,030
Deferred costs, non-current portion	18,401	10,182
Deferred tax assets, net, non-current portion	12,805	10,001
Other intangible assets, net	6,952	10,650
Goodwill	4,960	-
Total assets	\$ 565,829	\$ 606,883
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 32,012	\$ 32,703
Accrued and other liabilities	85,702	124,934
Deferred revenue, current portion	19,036	31,374
Related party payable - Rhapsody (B)	788	-
Related party payable - MTVN (C)	-	11,216
Accrued loss on excess office facilities, current portion	1,144	3,228
Total current liabilities	138,682	203,455
Deferred revenue, non-current portion	460	1,933
Accrued loss on excess office facilities, non-current portion	3,380	-
Deferred rent	3,514	4,464
Deferred tax liabilities, net, non-current portion	1,049	961
Other long-term liabilities	7,999	13,006
Total liabilities	155,084	223,819
Noncontrolling interest in Rhapsody (D)	-	7,253
Shareholders' equity	410,745	375,811
Total liabilities and shareholders' equity	\$ 565,829	\$ 606,883

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

(B) Related party payable reflects amounts owed to Rhapsody International, formed on March 31, 2010.

(C) Related party payable reflects amounts owed by Rhapsody to MTVN in periods prior to the restructuring and related deconsolidation that was completed on March 31, 2010.

(D) Noncontrolling interest in Rhapsody reflects MTVN's 49% ownership interest in the net assets of Rhapsody at December 31, 2009. Due to the restructuring transactions which occurred on March 31, 2010, Rhapsody's balance sheet is no longer included within RealNetworks consolidated financial statements.

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

	Years Ended December 31,	
	2010	2009
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 128	\$ (243,029)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	23,401	31,454
Stock-based compensation	12,203	21,460
Loss on disposal of equipment, software, and leasehold improvements	(41)	502
Equity in net loss of Rhapsody and other investments	16,164	1,313
Loss (gain) on sale of equity investment, net	9	(688)
Gain on deconsolidation of Rhapsody	(10,929)	-
Excess tax benefit from stock option exercises	(48)	(15)
Impairment of goodwill	-	175,583
Impairment of equity investments	-	5,020
Accrued restructuring and other charges	652	(2,773)
Accrued loss on excess office facilities	5,670	-
Deferred income taxes, net	622	4,255
Other	451	48
Net change in certain operating assets and liabilities, net of acquisitions and disposals	(79,404)	(2,434)
Net cash used in operating activities	(31,122)	(9,304)
Cash flows from investing activities:		
Purchases of equipment, software, and leasehold improvements	(12,904)	(16,807)
Purchases of short-term investments	(116,831)	(143,273)
Proceeds from sales and maturities of short-term investments	126,398	173,169
Proceeds from the sales of equity investments	-	1,014
Purchases of equity investments	-	(2,000)
Payment of acquisition costs, net of cash acquired	(5,806)	(3,324)
Sale of Exomi, net of cash received	49	-
Payment in connection with the restructuring of Rhapsody	(18,000)	-
Repayment of temporary funding on deconsolidation of Rhapsody	5,869	-
Decrease in restricted cash equivalents and investments, net	3,700	1,042
Net cash (used in) provided by investing activities	(17,525)	9,821
Cash flows from financing activities:		
Net proceeds from sales of common stock under employee stock purchase plan and exercise of stock options	2,678	1,455
Payments received on MTVN note	1,213	33,022
Capital contribution to Rhapsody from MTVN	-	5,000
Excess tax benefit from stock option exercises	48	15
Net cash provided by financing activities	3,939	39,492
Effect of exchange rate changes on cash and cash equivalents	3,696	4,053
Net (decrease) increase in cash and cash equivalents	(41,012)	44,062
Cash and cash equivalents, beginning of period	277,030	232,968
Cash and cash equivalents, end of period	\$ 236,018	\$ 277,030

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

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
(in thousands)								
Net Revenue by Line of Business:								
Core Products (A)	\$ 58,030	\$ 51,870	\$ 51,742	\$ 51,203	\$ 64,154	\$ 58,173	\$ 56,346	\$ 54,692
Emerging Products (B)	12,558	8,778	8,997	11,428	13,014	13,835	9,153	9,205
Games (C)	27,229	25,784	28,145	30,236	30,736	29,491	29,774	32,823
Total net revenue excluding music	97,817	86,432	88,884	92,867	107,904	101,499	95,273	96,720
Music (D)	-	-	-	35,733	37,598	38,765	40,452	44,053
Total net revenue including music	\$ 97,817	\$ 86,432	\$ 88,884	\$ 128,600	\$ 145,502	\$ 140,264	\$ 135,725	\$ 140,773
Core Products Revenue by Product:								
SaaS (E)	\$ 35,656	\$ 31,885	\$ 32,388	\$ 33,614	\$ 39,399	\$ 38,704	\$ 35,517	\$ 34,497
Systems Integrations / Professional Services (F)	4,388	953	998	367	5,040	818	3,228	1,088
Technology Licensing (G)	7,632	7,473	7,736	7,910	9,830	7,906	7,463	7,994
Consumer subscriptions (H)	10,354	11,559	10,620	9,312	9,885	10,745	10,138	11,113
Total Core Products net revenue	\$ 58,030	\$ 51,870	\$ 51,742	\$ 51,203	\$ 64,154	\$ 58,173	\$ 56,346	\$ 54,692
Net Revenue by Geography:								
United States	\$ 48,048	\$ 46,874	\$ 48,351	\$ 84,550	\$ 91,175	\$ 95,758	\$ 90,685	\$ 96,666
Rest of world	49,769	39,558	40,533	44,050	54,327	44,506	45,040	44,107
Total net revenue	\$ 97,817	\$ 86,432	\$ 88,884	\$ 128,600	\$ 145,502	\$ 140,264	\$ 135,725	\$ 140,773
Product Metrics (subscribers and ICM presented as greater than):								
Addressable subscribers of mobile operators under contract (I)	700,000	700,000	675,000	650,000	625,000	575,000	575,000	550,000
SaaS subscribers (J)	36,700	37,500	37,600	37,950	38,850	37,500	36,300	33,850
SaaS ARPU (in cents) (K)	\$ 0.20	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.17	\$ 0.19	\$ 0.17	\$ 0.17
ICM delivered in billions (L)	136	134	128	120	112	101	93	82
Consumer subscribers (M)	550	600	600	575	625	625	550	575

(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 revenue from 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).

(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 Integration 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.

(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) Includes subscribers for our SaaS services which 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) The total number of intercarrier messages delivered across our messaging platform in the quarter.

(M) Primarily includes subscribers to SuperPass and GamePass. 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)

	2010		2009	2010	2009
	Q4	Q3	Q4	YTD	YTD
(in thousands)					
Core Products					
Net revenue	\$ 58,030	\$ 51,870	\$ 64,154	\$ 212,845	\$ 233,365
Cost of revenue	25,679	22,230	23,767	83,733	81,774
Gross profit	32,351	29,640	40,387	129,112	151,591
Gross margin	56%	57%	63%	61%	65%
Operating expenses:	19,851	19,772	20,130	86,217	138,502
Operating income (loss)	\$ 12,500	\$ 9,868	\$ 20,257	\$ 42,895	\$ 13,089
Adjusted EBITDA	\$ 15,523	\$ 13,309	\$ 24,332	\$ 56,306	\$ 79,935
Emerging Products					
Net revenue	\$ 12,558	\$ 8,778	\$ 13,014	\$ 41,761	\$ 45,207
Cost of revenue	1,179	1,076	1,664	7,123	6,884
Gross profit	11,379	7,702	11,350	34,638	38,323
Gross margin	91%	88%	87%	83%	85%
Operating expenses:	7,359	6,059	8,867	28,053	73,211
Operating income (loss)	\$ 4,020	\$ 1,643	\$ 2,483	\$ 6,585	\$ (34,888)
Adjusted EBITDA	\$ 4,109	\$ 1,771	\$ 2,579	\$ 7,157	\$ 12,703
Games					
Net revenue	\$ 27,229	\$ 25,784	\$ 30,736	\$ 111,394	\$ 122,824
Cost of revenue	7,861	6,279	8,254	29,071	32,862
Gross profit	19,368	19,505	22,482	82,323	89,962
Gross margin	71%	76%	73%	74%	73%
Operating expenses:	17,580	17,092	23,392	78,275	127,908
Operating income (loss)	\$ 1,788	\$ 2,413	\$ (910)	\$ 4,048	\$ (37,946)
Adjusted EBITDA	\$ 2,452	\$ 2,885	\$ 1,063	\$ 8,970	\$ 7,772
Music					
Net revenue	\$ -	\$ -	\$ 37,598	\$ 35,733	\$ 160,868
Cost of revenue	-	-	22,614	21,864	98,322
Gross profit	-	-	14,984	13,869	62,546
Gross margin	N/A	N/A	40%	39%	39%
Operating expenses:	-	-	25,484	13,911	129,085
Operating income (loss)	\$ -	\$ -	\$ (10,500)	\$ (42)	\$ (66,539)
Adjusted EBITDA	\$ -	\$ -	\$ 4,388	\$ 4,214	\$ 17,594
Corporate					
Net revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of revenue	986	1,125	522	2,932	2,300
Gross profit	(986)	(1,125)	(522)	(2,932)	(2,300)
Gross margin	N/A	N/A	N/A	N/A	N/A
Operating expenses:	11,343	16,949	32,358	85,081	108,654
Operating income (loss)	\$ (12,329)	\$ (18,074)	\$ (32,880)	\$ (88,013)	\$ (110,954)
Adjusted EBITDA	\$ (8,811)	\$ (12,265)	\$ (23,837)	\$ (51,345)	\$ (81,515)
Total					
Net revenue	\$ 97,817	\$ 86,432	\$ 145,502	\$ 401,733	\$ 562,264
Cost of revenue	35,705	30,710	56,821	144,723	222,142
Gross profit	62,112	55,722	88,681	257,010	340,122
Gross margin	63%	64%	61%	64%	60%
Operating expenses:	56,133	59,872	110,231	291,537	577,360
Operating income (loss)	\$ 5,979	\$ (4,150)	\$ (21,550)	\$ (34,527)	\$ (237,238)
Adjusted EBITDA	\$ 13,273	\$ 5,700	\$ 8,525	\$ 25,302	\$ 36,489

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

	2010		2009		2009	
	Q4	Q3	Q4	YTD	YTD	YTD
Core Products						
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:						
Operating income (loss)	\$ 12,500	\$ 9,868	\$ 20,257	\$ 42,895	\$ 13,089	
Acquisitions related intangible asset amortization	705	1,059	1,424	3,991	5,475	
Depreciation and amortization	2,318	2,382	2,651	9,420	10,840	
Impairment of goodwill	-	-	-	-	50,531	
Adjusted EBITDA	\$ 15,523	\$ 13,309	\$ 24,332	\$ 56,306	\$ 79,935	
Emerging Products						
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:						
Operating income (loss)	\$ 4,020	\$ 1,643	\$ 2,483	\$ 6,585	\$ (34,888)	
Acquisitions related intangible asset amortization	-	-	-	-	-	
Depreciation and amortization	89	128	96	572	815	
Impairment of goodwill	-	-	-	-	46,776	
Adjusted EBITDA	\$ 4,109	\$ 1,771	\$ 2,579	\$ 7,157	\$ 12,703	
Games						
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:						
Operating income (loss)	\$ 1,788	\$ 2,413	\$ (910)	\$ 4,048	\$ (37,946)	
Acquisitions related intangible asset amortization	263	126	95	510	408	
Depreciation and amortization	401	346	1,878	4,412	4,063	
Impairment of goodwill	-	-	-	-	41,247	
Adjusted EBITDA	\$ 2,452	\$ 2,885	\$ 1,063	\$ 8,970	\$ 7,772	
Music						
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:						
Operating income (loss)	\$ -	\$ -	\$ (10,500)	\$ (42)	\$ (66,539)	
Net income (loss) attributable to noncontrolling interest in Rhapsody	-	-	8,397	2,910	26,265	
Acquisitions related intangible asset amortization (A)	-	-	278	58	1,115	
Depreciation and amortization (A)	-	-	636	690	2,854	
Pro forma gain on sale of interest in Rhapsody America	-	-	5,577	598	16,870	
Impairment of goodwill	-	-	-	-	37,029	
Adjusted EBITDA	\$ -	\$ -	\$ 4,388	\$ 4,214	\$ 17,594	
Corporate						
Reconciliation of segment GAAP operating income (loss) to adjusted EBITDA by reporting segment:						
Operating income (loss)	\$ (12,329)	\$ (18,074)	\$ (32,880)	\$ (88,013)	\$ (110,954)	
Other income (expense), net	144	(206)	(312)	1,031	(794)	
Depreciation and amortization	577	1,033	1,094	3,677	4,756	
Restructuring and other charges	874	1,080	2,346	12,361	4,017	
Stock-based compensation	1,923	3,588	5,915	12,203	21,460	
Loss on excess office facilities	-	314	-	7,396	-	
Adjusted EBITDA	\$ (8,811)	\$ (12,265)	\$ (23,837)	\$ (51,345)	\$ (81,515)	
Total						
Reconciliation of GAAP operating income (loss) to adjusted EBITDA:						
Operating income (loss)	\$ 5,979	\$ (4,150)	\$ (21,550)	\$ (34,527)	\$ (237,238)	
Net income (loss) attributable to noncontrolling interest in Rhapsody	-	-	8,397	2,910	26,265	
Other income (expense), net	144	(206)	(312)	1,031	(794)	
Acquisitions related intangible asset amortization (A)	968	1,185	1,797	4,559	6,998	
Depreciation and amortization (A)	3,385	3,889	6,355	18,771	23,328	
Impairment of goodwill	-	-	-	-	175,583	
Loss on excess office facilities	-	314	-	7,396	-	
Pro forma gain on sale of interest in Rhapsody America	-	-	5,577	598	16,870	
Restructuring and other charges	874	1,080	2,346	12,361	4,017	
Stock-based compensation	1,923	3,588	5,915	12,203	21,460	
Adjusted EBITDA	\$ 13,273	\$ 5,700	\$ 8,525	\$ 25,302	\$ 36,489	

(A) Net of noncontrolling interest effect.

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

	<u>Quarters Ended</u> <u>December 31,</u>		<u>Years Ended</u> <u>December 31,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(in thousands, except per share data)			
Net income (loss) attributable to common shareholders	\$ 1,194	\$ (17,819)	\$ 3,038	\$ (216,764)
Less accretion of MTVN's preferred return in Rhapsody	-	(925)	3,700	(3,700)
Net income (loss) available to common shareholders	<u>\$ 1,194</u>	<u>\$ (18,744)</u>	<u>\$ 6,738</u>	<u>\$ (220,464)</u>
Shares used to compute basic net income (loss) per share available to common shareholders	135,853	134,844	135,577	134,612
Dilutive potential common shares:				
Stock options and restricted stock	<u>280</u>	<u>-</u>	<u>476</u>	<u>-</u>
Shares used to compute diluted net income (loss) per share available to common shareholders	136,133	134,844	136,053	134,612
Basic net income (loss) per share available to common shareholders	\$ 0.01	\$ (0.14)	\$ 0.05	\$ (1.64)
Diluted net income (loss) per share available to common shareholders	\$ 0.01	\$ (0.14)	\$ 0.05	\$ (1.64)