REALNETWORKS INC
Form 10-K/A
May 31, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
Form 10-K/A

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 0-23137

RealNetworks, Inc.
(Exact name of registrant as specified in its charter)

Washington	**91-1628146**
(State of incorporation)	*(I.R.S. Employer Identification Number)*
2601 Elliott Avenue, Suite 1000	
Seattle, Washington	**98121**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code: (206) 674-2700

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, Par Value $0.001 per share	The NASDAQ Stock Market LLC
Preferred Share Purchase Rights	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the Common Stock held by non-affiliates of the registrant was $1,137,327,118 on June 30, 2006, based on the closing price of the Common Stock on that date, as reported on the Nasdaq Global Select Market.(1)

The number of shares of the registrant s Common Stock outstanding as of May 15, 2007 was 154,328,479.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement relating to the registrant s 2007 Annual Meeting of Shareholders to be held on or about June 25, 2007 are incorporated by reference into Part III of this Report.

(1) Excludes shares held of record on that date by directors, executive officers and 10% shareholders of the registrant. Exclusion of such shares should not be construed to indicate that any such person directly or indirectly possesses the power to direct or cause the direction of the management of the policies of the registrant.

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EXPLANATORY NOTE

RealNetworks, Inc. (also referred to as the Company, we, or our) is filing this Amendment No. 1 (the Amendment No. 1) to our Form 10-K for the fiscal year ended December 31, 2006 (the Form 10-K), originally filed with the Securities and Exchange Commission on March 1, 2007, for the purpose of:

amending the cover page to indicate that our preferred share purchase rights are registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended,

amending the cover page to indicate that shares of our common stock and our preferred share purchase rights are registered on the NASDAQ Stock Market LLC,

correcting a typographical error in the date of the Report of Independent Registered Public Accounting Firm relating to management s assessment of internal control over financial reporting appearing in Item 9A of the Form 10-K to reflect the report date of February 26, 2007,

revising the cover page and Items 10, 11, 12, 13 and 14 of Part III to reflect the date of our 2007 annual meeting of shareholders will be June 25, 2007, and

revising Items 10, 11, 13 and 14 of Part III to conform the description of the sections of the Proxy Statement for RealNetworks Annual Meeting of Shareholders scheduled to be held on or around June 25, 2007 incorporated by reference into these Items to what appears in such Proxy Statement filed with the Securities and Exchange Commission on May 15, 2007.

We are also updating the signature page, the Exhibit Index in Item 15 of Part IV and appearing after the signature page and Exhibits 23.1, 31.1, 31.2, 32.1 and 32.2.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the complete text of Item 8 of Part II, as amended, and Items 10, 11, 12, 13 and 14 of Part III, as amended, is set forth below. The information set forth in our financial statements and the footnotes thereto in this Amendment No. 1 has not been modified or updated in any way from the information in our financial statements and the related footnotes included in the Form 10-K. This Amendment No. 1 speaks as of the original filing date of the Form 10-K and reflects only the changes to the cover page, Item 8 of Part II, Items 10, 11, 12, 13 and 14 of Part III and Item 15 of Part IV discussed above. No other information included in the Form 10-K, including the information set forth in Part I, has been modified or updated in any way.

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PART II.

Item 8. Financial Statements and Supplementary Data

REALNETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 525,232	$ 651,971
Short-term investments	153,688	129,356
Trade accounts receivable, net of allowances for doubtful accounts and sales returns of $2,490 in 2006 and $2,973 in 2005	65,751	16,721
Deferred costs, current portion	1,643	
Deferred tax assets, net, current portion	891	54,204
Prepaid expenses and other current assets	21,990	11,933
Total current assets	769,195	864,185
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	83,587	56,402
Leasehold improvements	29,665	27,964
Total equipment, software, and leasehold improvements	113,252	84,366
Less accumulated depreciation and amortization	65,509	51,228
Net equipment, software, and leasehold improvements	47,743	33,138
Restricted cash equivalents	17,300	17,300
Equity investments	22,649	46,163
Other assets	5,148	2,397
Deferred tax assets, net, non-current portion	27,150	19,147
Other intangible assets, net of accumulated amortization of $16,637 in 2006 and $9,850 in 2005	105,109	7,337
Goodwill	309,122	123,330
Total assets	$ 1,303,416	$ 1,112,997
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 52,097	$ 11,397
Accrued and other liabilities	104,328	112,340
Deferred revenue, current portion	24,137	25,021
Accrued loss on excess office facilities, current portion	4,508	4,623
Total current liabilities	185,070	153,381

Deferred revenue, non-current portion	3,440	276
Accrued loss on excess office facilities, non-current portion	9,993	13,393
Deferred rent	4,331	4,018
Deferred tax liabilities, net, non-current portion	27,076	
Convertible debt	100,000	100,000
Other long-term liabilities	3,740	196
Total liabilities	333,650	271,264
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $0.001 par value, no shares issued and outstanding		
Series A: authorized 200 shares		
Undesignated series: authorized 59,800 shares		
Common stock, $0.001 par value authorized 1,000,000 shares; issued and outstanding 163,278 shares in 2006 and 166,037 shares in 2005	162	166
Additional paid-in capital	791,108	805,067
Deferred stock-based compensation		(19)
Accumulated other comprehensive income	23,485	26,724
Retained earnings	155,011	9,795
Total shareholders equity	969,766	841,733
Total liabilities and shareholders equity	$ 1,303,416	$ 1,112,997

See accompanying notes to consolidated financial statements.

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REALNETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)

	Years Ended December 31,		
	2006	**2005**	**2004**
Net revenue[(A)]	$ 395,261	$ 325,059	$ 266,719
Cost of revenue[(B)]	124,108	98,249	92,207
Loss on content agreement			4,938
Gross profit	271,153	226,810	169,574
Operating expenses:			
Research and development	77,386	70,731	52,066
Sales and marketing	165,602	130,515	96,779
General and administrative	57,332	50,697	31,538
Loss on excess office facilities	738		866
Subtotal operating expenses	301,058	251,943	181,249
Antitrust litigation (benefit) expenses, net	(220,410)	(422,500)	11,048
Total operating expenses (benefit)	80,648	(170,557)	192,297
Operating income (loss)	190,505	397,367	(22,723)
Other income (expenses):			
Interest income, net	37,622	14,511	4,452
Gain on sale of equity investments	2,286	19,330	
Equity in net income (loss) of investments	326	(1,068)	(4,351)
Impairment of equity investments	(3,116)	(266)	(450)
Other income (expenses)	130	(331)	597
Other income, net	37,248	32,176	248
Income (loss) before income taxes	227,753	429,543	(22,475)
Income taxes	(82,537)	(117,198)	(522)
Net income (loss)	$ 145,216	$ 312,345	$ (22,997)

Basic net income (loss) per share	$ 0.90	$ 1.84	$ (0.14)
Diluted net income (loss) per share	$ 0.81	$ 1.70	$ (0.14)
Shares used to compute basic net income (loss) per share	160,973	169,986	168,907
Shares used to compute diluted net income (loss) per share	179,281	184,161	168,907
Comprehensive income (loss):			
Net income (loss)	$ 145,216	$ 312,345	$ (22,997)
Unrealized gain (loss) on investments:			
Unrealized holding (losses) gains, net of tax	(14,399)	17,864	7,557
Adjustments for gains reclassified to net income (loss)		(4,052)	(53)
Foreign currency translation gains (losses)	11,160	(1,677)	(99)
Comprehensive income (loss)	$ 141,977	$ 324,480	$ (15,592)
(A) Components of net revenue:			
License fees	$ 90,684	$ 80,785	$ 71,706
Service revenue	304,577	244,274	195,013
	$ 395,261	$ 325,059	$ 266,719
(B) Components of cost of revenue:			
License fees	$ 37,089	$ 33,770	$ 28,206
Service revenue	87,019	64,479	64,001
	$ 124,108	$ 98,249	$ 92,207

See accompanying notes to consolidated financial statements.

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REALNETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2006	**2005**	**2004**
Cash flows from operating activities:			
Net income (loss)	$ 145,216	$ 312,345	$ (22,997)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	20,980	16,243	14,643
Stock-based compensation	18,151	128	695
Deferred income taxes	54,986	107,208	
Impairment of equity investments	3,116	266	450
Loss on disposal of property, software, and leasehold improvements	276		
Excess tax benefit from stock option exercises	(39,183)		
Accrued loss on excess office facilities	(3,515)	(6,244)	(4,799)
Gain on sale of equity investments	(2,286)	(19,330)	(561)
Equity in net (income) loss of investments	(326)	1,068	4,351
Accrued loss on content agreement		(2,917)	2,917
Other	97	804	1,592
Changes in certain assets and liabilities, net of acquisitions:			
Trade accounts receivable	(7,962)	(1,479)	(3,314)
Prepaid expenses and other current assets	(3,126)	(3,409)	1,258
Accounts payable	4,276	44	3,577
Accrued and other liabilities	(21,800)	59,826	12,810
Deferred revenue	2,020	(3,800)	(3,599)
Net cash provided by operating activities	170,920	460,753	7,023
Cash flows from investing activities:			
Purchases of equipment, software, and leasehold improvements	(13,808)	(13,782)	(10,018)
Purchases of short-term investments	(204,841)	(153,491)	(293,560)
Sales and maturities of short-term investments	180,973	168,358	324,512
Purchases of intangible and other assets		(1,125)	(4,839)
Decrease (increase) in restricted cash equivalents		2,851	(198)
Proceeds from sale of equity investments	2,286	19,530	572
Purchases of cost based investments	(834)	(647)	
Cash used in acquisitions, net of cash acquired	(257,841)	(14,705)	(10,477)
Net cash (used in) provided by investing activities	(294,065)	6,989	5,992
Cash flows from financing activities:			
	54,929	20,361	8,489

Net proceeds from sales of common stock under employee stock purchase plan and exercise of stock options			
Repayment of long-term note payable		(648)	
Excess tax benefit from stock option exercises	39,183		
Repurchase of common stock	(98,876)	(54,321)	
Net cash (used in) provided by financing activities	(4,764)	(34,608)	8,489
Effect of exchange rate changes on cash	1,170	(589)	(106)
Net (decrease) increase in cash and cash equivalents	(126,739)	432,545	21,398
Cash and cash equivalents, beginning of year	651,971	219,426	198,028
Cash and cash equivalents, end of year	$ 525,232	$ 651,971	$ 219,426
Supplemental disclosure of cash flow information:			
Cash paid during the year for income taxes	$ 16,487	$ 149	$ 415
Supplemental disclosure of non-cash investing and financing activities:			
Accrued acquisition consideration	$ 2,000	$	$
Payable for repurchase of common stock	$	$ 5,116	$
Common stock and options to purchase common stock issued in business combinations	$	$	$ 20,901

See accompanying notes to consolidated financial statements.

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REALNETWORKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Notes Receivable from Shareholders	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Total Shareholders Equity
Balances, December 31, 2003	164,197	$ 164	$ 639,369	$ (58)	$ (620)	$ 7,184	$ (279,553)	$ 366,486
Common stock issued for:								
Exercise of stock options and employee stock purchase plan	3,423	4	8,485					8,489
Business combination	3,007	3	20,898		(222)			20,679
Notes receivable retired	(8)		(41)	48				7
Amortization of deferred stock compensation					695			695
Shares issued for director payments	7		41					41
Unrealized gain on investments, net of income tax						7,557		7,557
Adjustments for gains reclassified to net loss						(53)		(53)
Translation adjustment						(99)		(99)
Net loss							(22,997)	(22,997)
Balances, December 31, 2004	170,626	171	668,752	(10)	(147)	14,589	(302,550)	380,805
Common stock issued for exercise of stock options and employee stock purchase plan	4,056	3	20,358					20,361
	(8,642)	(8)	(54,313)					(54,321)

Common shares repurchased								
Notes receivable retired	(18)		(26)	10				(16)
Amortization of deferred stock compensation					128			128
Shares issued for director payments	15		91					91
Unrealized gain on investments, net of income tax						17,864		17,864
Adjustments for gains reclassified to net income						(4,052)		(4,052)
Translation adjustment						(1,677)		(1,677)
Net deferred tax adjustment			170,205					170,205
Net income							312,345	312,345
Balances, December 31, 2005	166,037	166	805,067		(19)	26,724	9,795	841,733
Common stock issued for exercise of stock options and employee stock purchase plan	9,067	8	54,921					54,929
Common shares repurchased	(11,836)	(12)	(98,864)					(98,876)
Shares issued for director payments	10		97					97
Stock-based compensation			18,132		19			18,151
Unrealized loss on investments, net of income tax						(14,399)		(14,399)
Translation adjustment						11,160		11,160
Tax benefit from stock option exercises			11,755					11,755
Net income							145,216	145,216
Balances, December 31,	163,278	$ 162	$ 791,108	$	$	$ 23,485	$ 155,011	$ 969,766

2006

See accompanying notes to consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2006, 2005, and 2004

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business. RealNetworks, Inc. and subsidiaries (RealNetworks or Company) is a leading global provider of network-delivered digital media products and services. The Company also develops and markets software products and services that enable the creation, distribution and consumption of digital media, including audio and video.

Inherent in the Company s business are various risks and uncertainties, including limited history of certain of its product and service offerings and its limited history of offering premium subscription services on the Internet. The Company s success will depend on the acceptance of the Company s technology, products and services and the ability to generate related revenue.

Basis of Presentation. The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company acquired 99.7% of WiderThan Co., Ltd. during the quarter ended December 31, 2006. The accompanying financial statements include 100% of the financial results of WiderThan beginning October 31, 2006. The minority interest in the earnings of WiderThan for the period November 1, 2006 to December 31, 2006 was nominal.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Short-Term Investments. The Company considers all short-term investments with a remaining contractual maturity at date of purchase of three months or less to be cash equivalents.

The Company has classified as available-for-sale all marketable debt and equity securities for which there is determinable fair market value and there are no restrictions on the Company s ability to sell. Available-for-sale securities are carried at fair value, based on quoted market prices, with unrealized gains and losses reported as a separate component of shareholders equity, net of applicable income taxes. All short-term investments have remaining contractual maturities of two years or less. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income, net. Realized and unrealized gains and losses on available-for-sale securities are determined using the specific identification method.

Trade Accounts Receivable. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company s best estimate of the amount of probable credit losses in the Company s existing accounts receivable. The Company determines the allowance based on analysis of historical bad debts, customer concentrations, customer credit-worthiness and current economic trends. The Company reviews its allowance for doubtful accounts quarterly. Past due balances over 90 days and specified other balances are reviewed individually for collectibility. All other balances are reviewed on an aggregate basis. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

Concentration of Credit Risk. Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, and accounts receivable. The Company maintains its cash and cash equivalents with high credit quality financial institutions. Short-term investments consist of U.S. government and government agency securities and corporate notes and bonds. The Company derives a significant portion of its revenue from a large number of individual subscribers spread globally. The Company also derives revenue from several large customers. If the financial condition or results of operations of any one of the large customers deteriorates substantially, the Company s operating results could be adversely affected. To reduce credit risk, management performs ongoing credit evaluations of the financial condition of significant customers. The Company does not generally require collateral and maintains reserves for estimated credit losses on customer accounts when considered necessary.

Deferred costs. The Company defers costs on projects for service revenues and system sales. Deferred costs consist primarily of direct and incremental costs to customize and install systems, as defined in individual customer contracts, including costs to acquire

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

hardware and software from third parties and payroll and related costs for employees and other third parties. Deferred costs are capitalized during the implementation period.

The Company recognizes such costs in accordance with its revenue recognition policy by contract. For revenue recognized under the completed contract method, costs are deferred until the products are delivered, or upon completion of services or, where applicable, customer acceptance. For revenue recognized under the percentage of completion method, costs are recognized as products are delivered or services are provided. For revenue recognized ratably over the term of the contract, costs are also recognized ratably over the term of the contract, commencing on the date of revenue recognition. At each balance sheet date, the Company reviews its deferred costs, to ensure they are ultimately recoverable. Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue or if actual deferred costs exceed contractual revenue.

Long-term portion of deferred costs have been included in other assets in the accompanying consolidated balance sheets.

Depreciation and Amortization. Depreciation and amortization of equipment, software, and leasehold improvements are computed using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. Approximate useful life of equipment and software is three years and for leasehold improvements is two to ten years.

Depreciation expense during the years ended December 31, 2006, 2005, and 2004 was $13.5 million, $10.3 million, and $9.8 million, respectively.

Equity Investments. The cost method is used to account for equity investments in companies in which the Company holds less than a 20 percent voting interest, does not exercise significant influence, and the related securities do not have a quoted market price.

Other Intangible Assets. Other intangible assets consist primarily of the fair value of customer agreements and contracts, developed technology, patents, trademarks and tradenames acquired in business combinations. Other intangible assets are amortized on a straight line basis over three to seven years, which approximates their estimated useful lives.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed in business combinations. Goodwill is tested at least annually for impairment and more frequently if events and circumstances indicate that it might be impaired. The annual impairment test is performed in the fourth quarter of the Company s fiscal year. Factors the Company considers important which could trigger an impairment review include the following:

poor economic performance relative to historical or projected operating results;

significant negative industry, economic or company specific trends;

changes in the manner of our use of the assets or the plans for our business; and

loss of key personnel.

Long-Lived Assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of the assets to the estimated undiscounted future cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value estimated on discounted future cash flows.

Fair Value of Financial Instruments. At December 31, 2006, the Company had the following financial instruments: cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities, and convertible debt. The carrying value of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximates their fair value based on the liquidity of these financial instruments or based on their short-term nature. Short-term investments are carried at fair value based on quoted market prices. The fair value of convertible debt, which has a carrying value of $100.0 million, was $125.7 million and $97.2 million at December 31, 2006 and 2005, respectively.

Research and Development. Costs incurred in research and development are expensed as incurred. Software development costs are required to be capitalized when a product s technological feasibility has been established through the date the product is available for general release to customers. The Company has not capitalized any software development costs, as technological feasibility is generally not established until a working model is completed, at which time substantially all development is complete.

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

Revenue Recognition. The Company recognizes revenue in accordance with the following authoritative literature: AICPA Statement of Position (SOP) No. 97-2, *Software Revenue Recognition;* SOP No. 98-9, *Software Revenue Recognition with Respect to Certain Arrangements*; SOP No. 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*; Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition in Financial Statements*; Financial Accounting Standards Board s (FASB) Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables;* and EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. Generally the Company recognizes revenue when there is persuasive evidence of an arrangement, the fee is fixed or determinable, the product or services have been delivered and collectibility of the resulting receivable is reasonably assured.

Consumer subscription products are paid in advance, typically for monthly, quarterly or annual periods. Subscription revenue is recognized ratably over the related subscription period. Revenue from sales of downloaded individual tracks, albums and games are recognized at the time the music or game is made available, digitally, to the end user.

The Company has arrangements whereby customers pay one price for multiple products and services and in some cases, involve a combination of products and services. For arrangements with multiple deliverables, revenue is recognized upon the delivery of the individual deliverables in accordance with EITF Issue No. 00-21. In the event that there is no objective and reliable evidence of fair value of the delivered items, the revenue recognized upon delivery is the total arrangement consideration less the fair value of the undelivered items. The Company applies significant judgment in establishing the fair value of multiple elements within revenue arrangements.

The Company recognizes revenue on a gross or net basis, in accordance with EITF Issue No. 99-19. In most arrangements, the Company contracts directly with end user customers, is the primary obligor and carries all collectibility risk. In such arrangements the Company reports the revenue on a gross basis. In some cases, the Company utilizes third-party distributors to sell products or services directly to end user customers and carries no collectibility risk. In such instances the Company reports the revenue on a net basis.

The Company recognizes revenue for its software products pursuant to the requirements of SOP No. 97-2, as amended by SOP No. 98-9. If the Company provides consulting services that are considered essential to the functionality of the software products, both the software product revenue and services revenue are recognized under contract accounting in accordance with the provisions of SOP No. 81-1. Revenue from these arrangements is either recognized under the percentage of completion method based on the ratio of direct labor hours incurred to total projected labor hours, or on the completed contract method based on customer specific arrangement. Revenue from software license agreements with original equipment manufacturers (OEM) is recognized when the OEM delivers its product incorporating the Company s software to the end user.

Revenue generated from advertising appearing on the Company s websites and from advertising included in its products is recognized as revenue as the delivery of the advertising occurs.

Advertising Expenses. The Company expenses the cost of advertising and promoting its products as incurred. Such costs are included in sales and marketing expense and totaled \$51.2 million in 2006, \$40.0 million in 2005, and \$13.0 million in 2004.

Foreign Currency. The functional currency of the Company s foreign subsidiaries is the local currency of the country in which the subsidiary operates. Assets and liabilities of foreign operations are translated into U.S. dollars using rates of exchange in effect at the end of the reporting period. The net gain or loss resulting from translation is shown as translation adjustment and included in accumulated other comprehensive income in shareholders equity. Income and expense accounts are translated into U.S. dollars using average rates of exchange. Gains and losses from foreign currency transactions are included in the consolidated statements of operations. There were no significant gains or losses on foreign currency transactions in 2006, 2005, and 2004.

Derivative Financial Instruments. The Company conducts business internationally in several currencies. As such, it is exposed to adverse movements in foreign currency exchange rates. A portion of these risks are managed through the use of financial derivatives, but fluctuations could impact the Company s results of operations and financial position.

The Company s foreign currency risk management program reduces, but does not entirely eliminate, the impact of currency exchange rate movements.

Generally, the Company s practice is to manage foreign currency risk for the majority of material short-term intercompany balances through the use of foreign currency forward contracts. These contracts require the Company to exchange currencies at rates agreed upon at the contract s inception. Because the impact of movements in currency exchange rates on forward contracts offsets the related impact on the short-term intercompany balances, these financial instruments help alleviate the risk that might otherwise result from certain changes in currency exchange rates. The Company does not designate its foreign exchange forward contracts related to short-term intercompany accounts as hedges and, accordingly, the Company adjusts these instruments to fair value through results of

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

operations. However, the Company may periodically hedge a portion of its foreign exchange exposures associated with material firmly committed transactions and long-term investments.

All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated a hedge, then depending on the nature of the hedge, changes in fair value will either be recorded immediately in results of operations, or be recognized in accumulated other comprehensive income until the hedged item is recognized in results of operations.

The following foreign currency contracts were outstanding and recorded at fair value as of December 31, 2006 (in thousands):

	Contract Amount (Local Currency)		Contract Amount (US Dollars)	Unrealized Gain/(Loss)
British Pounds (GBP) (contracts to receive GBP/pay US$)	GBP	250	$ 492	$ 2
Japanese Yen (JPY) (contracts to receive JPY/pay US$)	JPY	28,000	$ 238	$ (2)

The following foreign currency contracts were outstanding and recorded at fair value as of December 31, 2005 (in thousands):

	Contract Amount (Local Currency)		Contract Amount (US Dollars)	Unrealized Gain/(Loss)
British Pounds (GBP) (contracts to receive GBP/pay US$)	GBP	1,000	$ 1,736	$ (15)
Euro (EUR) (contracts to pay EUR/receive US$)	EUR	1,260	$ 1,514	$ 23
Japanese Yen (JPY) (contracts to receive JPY/pay US$)	JPY	30,000	$ 251	$ 4

No derivative instruments which were designated as hedges for accounting purposes were outstanding at December 31, 2006 and 2005.

Income Taxes. The Company computes income taxes using the asset and liability method, under which deferred income taxes are provided for temporary differences between financial reporting basis and tax basis of the Company s assets and liabilities and operating loss and tax credit carryforwards. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. Deferred tax assets and liabilities and operating loss and tax credit carryforwards are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and operating loss and tax credit carryforwards are expected to be recovered or settled.

Stock-Based Compensation. Effective January 1, 2006, the Company adopted the provisions of, and began accounting for stock-based compensation in accordance with, Statement of Financial Accounting Standards (SFAS) No. 123R revised 2004, *Share-Based Payment*, which replaced SFAS 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*. Under the fair value provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123R, consistent with that used for pro forma disclosures under SFAS No. 123. The Company utilized the modified prospective transition method, which requires that stock-based compensation expense be recorded for all new and unvested stock options and employee stock purchase plan shares that are ultimately expected to vest as the requisite service is rendered beginning on January 1, 2006, the first day of the Company s 2006 fiscal year. Stock-based compensation expense for awards granted prior to January 1, 2006 is based on the grant date fair-value as determined under the pro forma provisions of SFAS No. 123.

Prior to January 1, 2006, the Company had elected to apply the disclosure-only provisions of SFAS No. 123. Accordingly, the Company accounted for stock-based compensation transactions with employees using the intrinsic value method prescribed in APB No. 25 and related interpretations. Compensation cost for employee stock options was measured as the excess, if any, of the fair value of the Company s common stock at the date of grant over the stock option exercise price. Compensation cost for awards to non-employees was based on the fair value of the awards in accordance with SFAS No. 123. Furthermore, the Company recognized compensation cost related to fixed employee awards on an accelerated basis over the applicable vesting period using the methodology described in FASB Interpretation (FIN) No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*.

At December 31, 2006, the Company had six stock-based employee compensation plans, which are described more fully in Note 13.

Net Income (Loss) Per Share. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

by the weighted average number of common and dilutive potential common shares outstanding during the period. As the Company had a net loss in 2004, basic and diluted net loss per share are the same for the year. Potentially dilutive securities outstanding were not included in the computation of diluted net loss per common share because to do so would have been anti-dilutive. The share count used to compute basic and diluted net income (loss) per share is calculated as follows (in thousands):

	Years Ended December 31,		
	2006	**2005**	**2004**
Weighted average shares outstanding	160,973	169,986	169,056
Less restricted shares			149
Shares used to compute basic net income (loss) per share	160,973	169,986	168,907
Dilutive potential common shares:			
Stock options and restricted stock	7,558	3,425	
Convertible debt	10,750	10,750	
Shares used to compute diluted net income (loss) per share	179,281	184,161	168,907

Approximately 8.5 million and 4.7 million shares of common stock potentially issuable from stock options during the years ended December 31, 2006 and 2005, respectively, are excluded from the calculation of diluted net income per share because of their antidilutive effect.

Accumulated Other Comprehensive Income. The Company s accumulated other comprehensive income as of December 31, 2006 and 2005 consisted of unrealized gains (losses) on marketable securities and foreign currency translation gains (losses). The tax effect of unrealized gains (losses) on investments and the foreign currency translation gains (losses) has been taken into account, if applicable.

The components of accumulated other comprehensive income are as follows (in thousands):

	December 31,	
	2006	**2005**
Unrealized gains on investments, including taxes of $5,243 in 2006 and $13,592 in 2005	$ 14,318	$ 28,717
Foreign currency translation adjustments	9,167	(1,993)
Accumulated other comprehensive income	$ 23,485	$ 26,724

Reclassifications. Certain reclassifications have been made to the 2004 and 2005 consolidated financial statements to conform to the 2006 presentation.

New Accounting Pronouncements. In June 2005, the FASB ratified EITF Issue No. 05 06, *Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination*. Issue No. 05 06 provides that the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease be the shorter of (a) the useful life of the assets or (b) a term that includes required lease periods and renewals that are reasonably assured upon the acquisition or the purchase. The provisions of Issue No. 05 06 are effective on a prospective basis for leasehold improvements purchased or acquired beginning in the second quarter of fiscal 2006. Adoption of Issue No. 05-06 did not have a material effect on the Company s consolidated financial statements.

In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.* FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of FIN No. 48 to have a material impact on its consolidated financial statements.

In June 2006, the FASB ratified the consensus reached on EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)*. The scope of Issue No. 06-3 includes any transaction-based tax assessed by a governmental authority that is imposed concurrent with or subsequent to a revenue-producing transaction between a seller and a customer. The scope does not include taxes that are based on gross receipts or total revenues imposed during the inventory procurement process. Gross versus net income statement classification of that tax is an accounting policy decision and a voluntary change would be considered a change in accounting policy requiring the application of SFAS No. 154, *Accounting Changes and Error Corrections*. The following disclosures will be required for taxes within

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***continued***

the scope of this issue that are significant in amount: (1) the accounting policy elected for these taxes; and (2) the amounts of the taxes reflected gross (as revenue) in the income statement on an interim and annual basis for all periods presented. Issue No. 06-3 is effective for interim and annual periods beginning after December 15, 2006. The Company does not expect the adoption of Issue No. 06-3 to have a material impact on its consolidated financial statements.

In September 2006, the SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements.* SAB No. 108 requires analysis of misstatements using both an income statement approach and a balance sheet approach in assessing materiality and provides for a one time cumulative effect transition adjustment. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB No. 108 did not have a material effect on the Company s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently assessing the impact of SFAS No. 157 on its consolidated financial statements.

Note 2. Stock-Based Compensation

Effective January 1, 2006, the Company adopted the provisions of, and began accounting for stock-based compensation in accordance with, SFAS No. 123 revised 2004, *Share-Based Payment*, which replaced SFAS 123, *Accounting for Stock-Based Compensation* and supersedes APB No. 25, *Accounting for Stock Issued to Employees*. Under the fair value provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123R, consistent with that used for pro forma disclosures under SFAS No. 123. The Company utilized the modified prospective transition method, which requires that stock-based compensation expense be recorded for all new and unvested stock options and employee stock purchase plan shares that are ultimately expected to vest as the requisite service is rendered beginning on January 1, 2006, the first day of the Company s 2006 fiscal year. Stock-based compensation expense for awards granted prior to January 1, 2006 is based on the grant date fair-value as determined under the pro forma provisions of SFAS No. 123.

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, including the contractual terms, vesting schedules and expectations of future employee behavior. During the year ended December 31, 2006, expected stock price volatility is based on a combination of historical volatility of the Company s stock for the related expected term and the implied volatility of its traded options. Prior to the adoption of SFAS No. 123R, expected stock price volatility was estimated using only historical volatility. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with a term equivalent to the expected term of the stock options. The Company has not paid dividends in the past.

In accordance with SFAS No. 123R the Company presents excess tax benefits from the exercise of stock-based compensation awards as a financing activity in the consolidated statement of cash flows for periods in which an excess tax benefit is recorded. As a result of the implementation of SFAS No. 123R, cash benefit of $39.2 million was recorded during the year ended December 31, 2006 which resulted in a decrease in cash provided by operating activities and a decrease in cash used in financing activities.

The Company recognizes compensation cost related to stock options granted prior to the adoption of SFAS No. 123R on an accelerated basis over the applicable vesting period using the methodology described in FIN No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. The Company recognizes compensation cost related to options granted subsequent to the adoption of SFAS No. 123R on a straight-line basis over the applicable vesting period. At December 31, 2006, the Company had options outstanding under six stock-based compensation plans. The Company issues new shares of its common stock to satisfy stock option exercises.

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REALNETWORKS, INC. AND SUBSIDIARIES
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Stock-based compensation expense recognized in the Company s consolidated statements of operations is as follows (in thousands):

	Year Ended December 31, 2006
Cost of service revenue	$ 257
Research and development	6,512
Sales and marketing	7,152
General and administrative	4,230
Total stock-based compensation expense	$ 18,151

No stock-based compensation was capitalized as part of the cost of an asset as of December 31, 2006. As of December 31, 2006, $41.2 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock options is expected to be recognized over a weighted-average period of approximately two years.

Prior to the adoption of SFAS No. 123R, the Company measured compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by APB No. 25. The Company applied the disclosure provisions of SFAS No. 123 as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* as if the fair-value-based method had been applied in measuring compensation expense. Under APB No. 25, when the exercise price of the Company s employee stock options was equal to the market price of the underlying stock on the date of the grant, no compensation expense was recognized.

The following table presents the impact of the Company s adoption of SFAS No. 123R on selected line items from the consolidated statement of operations during the year ended December 31, 2006 (in thousands, except per share data):

	As Reported Following SFAS 123(R)	If Reported Following APB No. 25
Operating income	$ 190,505	$ 208,637
Income before income taxes	227,753	245,885
Net income	$ 145,216	$ 156,777
Basic net income per share	$ 0.90	$ 0.97
Diluted net income per share	$ 0.81	$ 0.87

The following table illustrates the effect on net income (loss) and net income (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123R to stock-based employee compensation during the years ended December 31, 2005 and 2004 (in thousands, except per share data):

	Year Ended December 31, 2005	Year Ended December 31, 2004
Net income (loss) as reported	$ 312,345	$ (22,997)
Plus: stock-based employee compensation expense included in reported net income, net of related tax effects	128	695
Less: stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(14,860)	(21,227)

Pro forma net income (loss)	$	297,613	$	(43,529)
Net income (loss) per share:				
Basic as reported	$	1.84	$	(0.14)
Diluted as reported	$	1.70	$	(0.14)
Basic pro forma	$	1.75	$	(0.26)
Diluted pro forma	$	1.62	$	(0.26)

For further information related to the Company s equity compensation plans see Note 13.

Note 3. Business Combinations

Business Combinations in 2006.

Zylom Media Group B.V.

On January 31, 2006, the Company acquired all of the outstanding securities of Zylom Media Group B.V. (Zylom) in exchange for $7.9 million in cash payments, including $293,000 in direct acquisition related costs consisting primarily of professional fees. The Company is also obligated to pay an additional $2.0 million, through individual payments of $1.0 million on the first and second anniversaries of the acquisition date.

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

Additionally, the Company may be obligated to pay up to $10.9 million over a three-year period, dependent on whether certain performance criteria are achieved. Such amounts are not included in the initial aggregate purchase price and, to the extent earned, will be recorded as goodwill when the performance criteria are achieved.

Zylom is located in Eindhoven, The Netherlands and is a distributor, developer, and publisher of PC-based games in Europe. The Company believes that combining Zylom s assets and distribution network with the Company s downloadable, PC-based games assets and distribution platform will enhance the Company s presence in the European games market. The results of Zylom s operations are included in the Company s condensed consolidated financial statements starting from the date of acquisition.

A summary of the purchase price for the acquisition is as follows (in thousands):

Cash paid at acquisition	$ 7,922
Additional future payments related to initial purchase price	2,000
Estimated direct acquisition costs	293
Total	$ 10,215

The aggregate purchase consideration has been allocated to the assets and liabilities acquired, including identifiable intangible assets, based on their respective estimated fair values as summarized below. The respective estimated fair values were determined by a third-party appraisal at the acquisition date and resulted in excess purchase consideration over the net tangible and identifiable intangible assets acquired of $8.2 million. Goodwill in the amount of $8.2 million is not deductible for tax purposes.

A summary of the allocation of the purchase price is as follows (in thousands):

Current assets	$ 1,830
Property and equipment	166
Other intangible assets subject to amortization:	
Technology and games	570
Tradenames and trademarks	560
Distributor and customer relationships	1,290
Non-compete agreements	180
Goodwill	8,168
Total assets acquired	12,764
Current liabilities	(1,781)
Net deferred tax liabilities	(768)
Total liabilities acquired	(2,549)
Net assets acquired	$ 10,215

Technology/Games and Tradenames/Trademarks have weighted average estimated useful lives of three years. Distributor and customer relationships have weighted average estimated useful lives of approximately five years. Non-compete agreements have a weighted average estimated useful life of four years. All of the other intangible assets are being amortized over their estimated useful life on a straight line basis.

Pro forma results are not presented, because they are not material to the Company s overall financial statements.

WiderThan Co., Ltd.

Pursuant to a Combination Agreement with WiderThan Co., Ltd. (WiderThan) dated September 12, 2006, the Company acquired approximately 94.6% and 99.7% of the outstanding common shares and American Depository Shares (ADSs) of WiderThan for $17.05 per common share and per ADSs in cash effective October 31, 2006 and November 28, 2006, respectively. Additionally, the Company incurred $6.0 million in direct acquisition related costs consisting primarily of professional fees and other costs directly related to the acquisition for a total purchase price of $342.7 million.

WiderThan is a leading provider of ringback tones, music-on-demand, and other mobile entertainment services to wireless carriers principally in the Republic of Korea and the U.S., and other countries in Asia and Europe. The Company believes that combining WiderThan and its business will enhance the Company s digital entertainment products and services offerings and accelerate its reach around the world. The results of WiderThan operations are included in the Company s consolidated financial statements starting from the closing date of October 31, 2006. The minority interest in the earnings of WiderThan for the period November 1, 2006 to December 31, 2006 was nominal.

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***continued***

A summary of the purchase price for the acquisition is as follows (in thousands):

Cash	$ 336,652
Direct acquisition costs	6,036
Total purchase price	$ 342,688

The total purchase consideration has been allocated to the assets and liabilities acquired, including identifiable intangible assets, based on their respective estimated fair values as summarized below. The respective estimated fair values were determined by an independent third-party appraisal at the acquisition date and resulted in excess purchase consideration over the net tangible and identifiable intangible assets acquired of $166.9 million. Goodwill in the amount of $166.9 million is not deductible for tax purposes.

A summary of the preliminary allocation of the purchase price is as follows (in thousands):

Current assets	$ 144,732
Property and equipment	11,148
Other long-term assets	4,407
Other intangible assets subject to amortization:	
Customer relationships	67,000
Developed technology	24,000
Tradenames and trademarks	3,800
Service contracts	3,400
Goodwill	166,925
Total assets acquired	425,412
Current liabilities	(55,885)
Long-term liabilities	(1,110)
Net deferred tax liabilities	(25,729)
Total liabilities acquired	(82,724)
Net assets acquired	$ 342,688

Customer relationships have a weighted average estimated useful life of seven years. Developed technology has an average estimated useful life of four years. Tradenames and trademarks have a weighted average estimated useful life of three years. Service contracts have a weighted average estimated useful life of three years. All of the other intangible assets are being amortized over their estimated useful life on a straight line basis.

As of December 31, 2006 the Company had not made a final determination to maintain WiderThan Americas, Inc., currently a wholly-owned subsidiary of WiderThan, as a direct subsidiary of WiderThan or as a direct subsidiary of RealNetworks, Inc. The determination of the final structure may impact the amount of deferred tax liability and goodwill, therefore the allocation of the purchase price, if the decision is made within a reasonable time from the date of acquisition.

The following unaudited pro forma financial information presents the combined results of operations of the Company and WiderThan as if the acquisition had occurred as of the beginning of the periods presented. The unaudited pro forma financial information is not intended to represent or be indicative of the consolidated results of operations of the Company that would have been reported had the acquisition been completed as of the beginning of the periods presented, and should not be taken as representative of the future consolidated results of operations of the Company (in thousands, except per share data).

	Year Ended December 31, 2006	**Year Ended December 31, 2005**
Net revenue	$ 500,017	$ 423,412
Net income	$ 153,688	$ 301,570
Basic net income per share	$ 0.95	$ 1.77
Diluted net income per share	$ 0.86	$ 1.64

Pro forma net income for year ended December 31, 2006 excludes $23.1 million of acquisition related charges recorded by WiderThan prior to the acquisition.

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REALNETWORKS, INC. AND SUBSIDIARIES
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Atrativa Latin America Ltda.

On November 21, 2006, the Company acquired all of the outstanding securities of Atrativa Latin America Ltda. (Atrativa) in exchange for $3.8 million in cash payments, including $224,000 in direct acquisition related costs consisting primarily of professional fees.

Atrativa is located in Sao Paolo, Brazil, and is a distributor of online and downloadable casual games. The Company believes leveraging Atrativa s distribution network in Latin America will strengthen the Company s leadership position in the casual games market. The results of Atrativa s operations are included in the Company s condensed consolidated financial statements starting from the date of acquisition.

A summary of the purchase price for the acquisition is as follows (in thousands):

Cash	$ 3,600
Direct acquisition costs	224
Total purchase price	$ 3,824

The total purchase consideration has been allocated to the assets and liabilities acquired, including identifiable intangible assets, based on their respective estimated fair values as summarized below. The respective estimated fair values were determined by an independent third-party appraisal at the acquisition date and resulted in excess purchase consideration over the net tangible and identifiable intangible assets acquired of $4.2 million. Goodwill in the amount of $4.2 million is not deductible for tax purposes.

A summary of the allocation of the purchase price is as follows (in thousands):

Current assets	$ 77
Property and equipment	10
Other long-term assets	3
Other intangible assets subject to amortization:	
Customer relationships	650
Supplier relationships	150
Tradenames and trademarks	120
Goodwill	4,220
Total assets acquired	5,230
Current liabilities	(124)
Long-term liabilities	(969)
Net deferred tax liabilities	(313)
Total liabilities acquired	(1,406)
Net assets acquired	$ 3,824

Customer relationships have a weighted average estimated useful life of three years. Supplier relationships have a weighted average estimated useful life of four years. Tradenames and trademarks have a weighted average estimated useful life of three years. All of the other intangible assets are being amortized over their estimated useful life on a straight line basis.

Pro forma results are not presented, as they are not material to the Company s overall financial statements.

Business Combination in 2005.

On May 6, 2005, the Company acquired all of the outstanding securities of Mr. Goodliving Ltd. (Mr. Goodliving) in exchange for $15.6 million in cash payments, including $534,000 in direct acquisition related costs consisting primarily of professional fees. In addition, the Company may be obligated to pay up to $1.6 million over a four-year period to certain Mr. Goodliving employees in the form of a management incentive bonus if certain performance criteria are achieved. Such amounts are not included in the purchase price and, to the extent earned, are being recorded as compensation expense over the related employment periods. The accrued compensation cost related to this plan was $374,000 and $300,000 during the years ended December 31, 2006 and 2005, respectively, and is included in the consolidated balance sheet in accrued and other liabilities.

Mr. Goodliving is a developer and publisher of mobile games located in Helsinki, Finland. The Company believes that combining Mr. Goodliving s assets and distribution network with the Company s downloadable, PC-based games assets and

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***continued***

distribution platform will enhance the Company s entry into the mobile games market. The results of Mr. Goodliving s operations are included in the Company s consolidated financial statements starting from the date of acquisition.

A summary of the purchase price for the acquisition is as follows (in thousands):

Cash	$ 15,089
Direct acquisition costs	534
Total purchase price	$ 15,623

The total purchase consideration has been allocated to the assets and liabilities acquired, including identifiable intangible assets, based on their respective estimated fair values as summarized below. The respective estimated fair values were determined by an independent third-party appraisal at the acquisition date and resulted in excess purchase consideration over the net tangible and identifiable intangible assets acquired of $12.8 million. Goodwill in the amount of $12.8 million is not deductible for tax purposes. Pro forma results are not presented, as they are not material to the Company s overall financial statements.

A summary of the allocation of the purchase price is as follows (in thousands):

Current assets	$ 1,624
Property and equipment	10
Other intangible assets subject to amortization:	
Technology and games	1,460
Tradenames and trademarks	400
Distributor and customer relationships	1,500
Goodwill	12,745
Total assets acquired	17,739
Current liabilities	(756)
Net deferred tax liabilities	(497)
Long-term notes payable	(863)
Total liabilities acquired	(2,116)
Net assets acquired	$ 15,623

Technology and Games have a weighted average estimated useful life of two years. Tradenames and trademarks have a weighted average estimated useful life of four years. Distributor and customer relationships have a weighted average estimated useful life of five years.

Business Combination in 2004.

In January 2004, the Company acquired all of the outstanding securities of GameHouse, Inc. (GameHouse) in exchange for $9.1 million in cash payments, including an estimated future payment of $100,000 to cover certain tax obligations of the selling shareholders, and 3.0 million shares and options to acquire 300,000 shares of its common stock valued at $20.9 million. The value assigned to the stock portion of the purchase price was $6.40 per share based on the average closing price of the Company s common stock for the five days beginning two days prior to and ending two days after January 26, 2004 (the date of the Agreement and Plan of Merger). Options issued were valued based on the Black-Scholes options pricing model. Included in the purchase price is $350,000 in direct acquisition related costs consisting primarily of professional fees. Certain former GameHouse shareholders are eligible to receive up to $5.5 million over a four-year period, payable in cash or, at the Company s discretion, in its common stock valued in that amount provided they remain employed by the Company during such period. Under the Agreement, the Company may be obligated to pay up to $1.0 million over a four-year period to certain GameHouse employees in the form of a management incentive plan. Such amounts were not included in the total purchase price and, to the extent earned, were being recorded as compensation expense over the related employment periods. As eligible GameHouse employees are no longer employed by the Company no such payments under the Agreement will be made.

GameHouse is a developer, publisher and distributor of downloadable PC and mobile games. The Company believes that combining GameHouse s assets with its subscription games service and downloadable games distribution platform will strengthen the Company s position in the PC games market. The results of GameHouse s operations are included in the Company s condensed consolidated financial statements starting from the date of acquisition.

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***continued***

The purchase price for the acquisition is as follows (in thousands):

Cash	$ 9,131
Fair value of common stock and options issued	20,901
Direct acquisition costs	350
Total purchase price	$ 30,382

The total purchase price has been allocated to the assets and liabilities acquired, including identifiable intangible assets, based on their respective estimated fair values by an independent third-party appraisal as summarized below. The respective estimated fair values were determined as of the acquisition date and resulted in excess purchase consideration over the net tangible and identifiable intangible assets acquired of $21.9 million. Goodwill in the amount of $21.9 million is not deductible for tax purposes. Pro forma results are not presented, as they are not material to the Company s overall financial statements.

A summary of the allocation of the purchase price is as follows (in thousands):

Current assets	$ 1,315
Property and equipment	82
Other intangible assets subject to amortization:	
Technology and games	5,200
Tradename	1,600
Customer list	400
Goodwill	21,894
Current liabilities	(331)
Deferred stock compensation	222
Net assets acquired	$ 30,382

Technology and games have a weighted average estimated useful life of two years. Tradename and customer list have a weighted average estimated useful life of four years.

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***continued***

Note 4. Cash, Cash Equivalents, Short-Term Investments, and Restricted Cash Equivalents

Cash, cash equivalents, short-term investments, and restricted cash equivalents as of December 31, 2006 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$ 108,415	$	$	$ 108,415
Money market mutual funds	231,634			231,634
Corporate notes and bonds	182,184			182,184
U.S. Government agency securities	2,999			2,999
Total cash and cash equivalents	525,232			525,232
Short-term investments:				
U.S. Government agency securities	153,520	188	(20)	153,688
Total short-term investments	153,520	188	(20)	153,688
Total cash, cash equivalents, and short-term investments	$ 678,752	$ 188	$ (20)	$ 678,920
Restricted cash equivalents	$ 17,300	$	$	$ 17,300

Cash, cash equivalents, short-term investments, and restricted cash equivalents as of December 31, 2005 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash	$ 2,455	$	$	$ 2,455
Money market mutual funds	587,256			587,256
Corporate notes and bonds	49,234			49,234
U.S. Government agency securities	13,026			13,026
Total cash and cash equivalents	651,971			651,971
Short-term investments:				

U.S. Government agency securities	129,658		(302)	129,356
Total short-term investments	129,658		(302)	129,356
Total cash, cash equivalents, and short-term investments	$ 781,629	$	$ (302)	$ 781,327
Restricted cash equivalents	$ 17,300	$	$	$ 17,300

At December 31, 2006, restricted cash equivalents represent cash equivalents pledged as collateral against two letters of credit for a total of $17.3 million in connection with two lease agreements.

Realized gains or losses on sales of available-for-sale securities for 2006, 2005, and 2004 were not significant.

Changes in estimated fair values of short-term investments are primarily related to changes in interest rates and are considered to be temporary in nature.

The contractual maturities of available-for-sale debt securities at December 31, 2006 are as follows (in thousands):

	Amortized Cost	Estimated Fair Value
Within one year	$ 120,909	$ 120,945
Between one year and two years	32,611	32,743
Total short-term investments	$ 153,520	$ 153,688

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 5. Allowance for Doubtful Accounts Receivable and Sales Returns

Activity in the allowance for doubtful accounts receivable is as follows (in thousands):

	Years Ended December 31,		
	2006	**2005**	**2004**
Balance, beginning of year	$ 1,340	$ 1,145	$ 1,278
Additions charged to expenses	596	377	527
Amounts written off	(835)	(182)	(660)
Balance, end of year	$ 1,101	$ 1,340	$ 1,145

Activity in the allowance for sales returns is as follows (in thousands):

	Years Ended December 31,		
	2006	**2005**	**2004**
Balance, beginning of year	$ 1,633	$ 2,141	$ 1,580
Additions charged to revenue	4,898	6,560	8,528
Amounts written off	(5,142)	(7,068)	(7,967)
Balance, end of year	$ 1,389	$ 1,633	$ 2,141

At December 31, 2006 one international customer accounted for 25% of trade accounts receivable. At December 31, 2005 no one customer accounted for more than 10% of trade accounts receivable.

No one customer accounted for more than 10% of total revenue during the years ended December 31, 2006, 2005, and 2004.

Note 6. Deferred Costs

Deferred costs, consisting of costs being amortized over the respective contract lives, are as follows (in thousands):

	December 31, 2006
Deferred costs	$ 2,170
Less current portion	1,643
Deferred costs, non-current portion	$ 527

No deferred costs were recorded at December 31, 2005.

Note 7. Equity Investments

The Company has certain equity investments that are accounted for under the cost method of accounting. The cost method is used to account for equity investments in companies in which the Company holds less than a 20 percent voting interest, does not exercise significant influence, and for which the related securities do not have a quoted market price.

The Company has certain equity investments in publicly traded companies in which the Company holds less than a 20 percent voting interest. The investments are accounted for at market value. Changes in the market value of the investments are recognized as unrealized gains (losses), net of income tax, and are recorded in the accompanying consolidated balance sheets as a component of accumulated other comprehensive income.

During the quarter ended March 31, 2006, the Company established Beijing RealNetworks Technology Co., Ltd, a Wholly Owned Foreign Entity (WOFE) which operates an Internet retail website in the People s Republic of China (PRC) in cooperation with a PRC affiliate. The results of operations of the WOFE have been included in the Company s consolidated results since the establishment date of the WOFE. The PRC regulates the WOFE s business through regulations and license requirements restricting: (i) the scope of foreign investment in the Internet, retail and delivery sectors; (ii) Internet content; and (iii) the sale of certain media products. In order to meet the PRC local ownership and regulatory licensing requirements, the WOFE s business is operated through a PRC affiliate which is owned by nominee shareholders who are PRC nationals and RealNetworks employees. The WOFE does not own any capital stock of the PRC affiliate, but is the primary beneficiary of future losses or profits through contractual rights. As a result, the Company consolidates the results of the PRC affiliate in accordance with FIN No. 46R, *Consolidation of Variable Interest Entities*. The net assets and operating results for the PRC affiliate were not significant during the year ended December 31, 2006.

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

Summary of equity investments is as follows (in thousands):

	2006		2005	
	Cost	Carrying Value	Cost	Carrying Value
Publicly traded investments	$ 913	$ 20,235	$ 913	$ 43,447
Privately held investments	1,879	2,414	12,500	2,716
Total equity investments	$ 2,792	$ 22,649	$ 13,413	$ 46,163

Privately held investments include investments accounted for using the cost and equity methods.

As of December 31, 2006 and 2005, the carrying value of equity investments in publicly traded companies consists primarily of approximately 10.6% of outstanding shares of J-Stream Inc. (J-Stream), a Japanese media services company. These equity investments are accounted for as available-for-sale. The market value of these shares has increased from the original cost of $913,000, resulting in a carrying value of $20.2 million and $43.4 million as of December 31, 2006 and 2005, respectively. The increase over the cost basis, net of income tax is $14.1 million and $28.9 million at December 31, 2006 and 2005, respectively, and is reflected as a component of accumulated other comprehensive income. In July 2005, the Company disposed of a portion of the investment in J-Stream through open market trades, which resulted in net proceeds of $11.9 million, and recognition of a gain, net of income tax and a loss associated with a previously cancelled foreign currency hedge related to the investment, of $8.4 million during the year ended December 31, 2005. The disposition resulted in a tax expense and a related offset to accumulated other comprehensive income of $3.3 million during the year ended December 31, 2005. There were no similar gains or losses in 2006 or 2004. The market for these investments is relatively limited and the share price is volatile. Although the carrying value of the investments was $20.2 million at December 31, 2006, there can be no assurance that a gain of this magnitude, or any gain, can be realized through the disposition of these shares.

Based upon an evaluation of the facts and circumstances during the quarter ended December 31, 2006, the Company determined that an other-than-temporary decline in fair value had occurred in one of its privately-held investments, resulting in an impairment charge of $3.1 million to reflect changes in the fair value of the investment.

The Company s equity investment in MusicNet, Inc. (MusicNet) was accounted for under the equity method of accounting. Under the equity method of accounting, the Company s share of the investee s earnings or loss was included in the Company s consolidated operating results. During the quarter ended June 30, 2005, the Company disposed of all of its preferred shares and convertible notes in MusicNet.

Note 8. Other Intangible Assets

Other intangible assets consist of the following (in thousands):

	Gross Amount	Accumulated Amortization	Net
Customer relationships	$ 73,061	$ 3,386	$ 69,675
Developed technology	36,891	9,981	26,910
Patents, trademarks and tradenames	7,114	2,226	4,888
Service contracts	4,680	1,044	3,636
Total other intangible assets, December 31, 2006	$ 121,746	$ 16,649	$ 105,109

Total other intangible assets, December 31, 2005	$ 17,187	$ 9,850	$ 7,337

Amortization expense related to other intangible assets during the years ended December 31, 2006, 2005, and 2004 was $7.4 million, $4.0 million, and $3.6 million, respectively.

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

As of December 31, 2006 estimated future amortization of other intangible assets is as follows (in thousands):

2007	$ 21,256
2008	20,549
2009	18,798
2010	14,874
2011	9,655
Thereafter	19,977
Total	$ 105,109

Note 9. Goodwill

Changes in goodwill are as follows (in thousands):

	2006	2005
Balance, beginning of year	$ 123,330	$ 119,217
Increases due to acquisitions	179,313	12,745
Deferred tax adjustment		(7,528)
Effects of foreign currency translation	6,479	(1,104)
Balance, end of year	$ 309,122	$ 123,330

Note 10. Accrued and Other Liabilities

Accrued and other liabilities consist of (in thousands):

	December 31,	
	2006	2005
Royalties and costs of sales and fulfillment	$ 29,958	$ 24,740
Employee compensation, commissions and benefits	25,244	11,413
Sales, VAT and other taxes payable	13,364	16,562
Income taxes payable	8,455	9,120
Legal fees and contingent legal fees	4,075	17,815
Accrued charitable donations	2,048	15,401
Other	21,174	17,289
Total	$ 104,328	$ 112,340

Note 11. Loss on Excess Office Facilities and Content Agreement

In October 2000, the Company entered into a 10-year lease agreement for additional office space located near its corporate headquarters in Seattle, Washington. Due to a subsequent decline in the market for office space in Seattle and the Company s re-assessment of its facilities requirements in 2001, the Company accrued for estimated future losses on excess office facilities. Additionally, the Company accrued for estimated future losses on this facility in 2002 and 2003 based on changes in market conditions and securing tenants at rates lower than those used in the original estimate.

During the year ended December 31, 2006 the Company recorded $738,000 of additional loss due to building operating expenses that are not expected to be recovered under the terms of the existing sublease arrangements. The Company did not identify any factors which caused it to revise its estimates during the years ended December 31, 2005, and 2004. The estimated loss as of December 31, 2006 consists of $9.9 million of sublease income under existing sublease arrangements.

In September 2004, the Company renegotiated its existing lease for its headquarters building. In addition, the Company ceased use of 16,000 square feet of office space, which was returned to the landlord in May 2005 in accordance with the amended lease agreement. The Company recorded a loss on excess office facilities of $866,000 related to the expensing of net leasehold improvements and rent for the period between October 1, 2004 and April 30, 2005 in connection with vacating the excess space.

In March 2004, the Company cancelled a content licensing agreement with one of its content partners. Under the terms of the cancellation agreement, the Company gave up rights to use the content and ceased using the content in any of its products or services as of March 31, 2004. The resulting expense of $4.9 million represents the estimated fair value of payments to be made in accordance

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

with the terms of the cancellation agreement. All payments due under the cancellation agreement have been made as of December 31, 2005.

A summary of activity for the accrued loss on excess office facilities and content agreement is as follows (in thousands):

Accrued loss, December 31, 2003	$ 29,059
Adjustment to accrual for change in estimate	126
Less amounts paid on accrued loss on excess office facilities, net of sublease income	(4,925)
Loss on content agreement initially recorded	4,938
Less amounts paid on content agreement in 2004, net of interest expense	(2,021)
Accrued loss, December 31, 2004	27,177
Less amounts paid on accrued loss on excess office facilities, net of sublease income	(6,244)
Less amounts paid on content agreement, net of interest expense	(2,917)
Accrued loss, December 31, 2005	18,016
Adjustment to accrual for change in estimate	738
Less amounts paid on accrued loss on excess office facilities, net of sublease income	(4,253)
Accrued loss, December 31, 2006	14,501
Less current portion	4,508
Accrued loss, non-current portion	$ 9,993

Note 12. Convertible Debt

During 2003, the Company issued $100.0 million aggregate principal amount of zero coupon convertible subordinated notes due July 1, 2010, pursuant to Rule 144A under the Securities Act of 1933, as amended. The notes are subordinated to any Company senior debt and are also effectively subordinated in right of payment to all indebtedness and other liabilities of its subsidiaries. The notes are convertible into shares of the Company s common stock based on an initial effective conversion price of $9.30 if (1) the closing sale price of the Company s common stock exceeds $10.23, subject to certain restrictions, (2) the notes are called for redemption, (3) the Company makes a significant distribution to its shareholders or becomes a party to a transaction that would result in a change in control, or (4) the trading price of the notes falls below 95% of the value of common stock that the notes are convertible into, subject to certain restrictions; one of which allows the Company, at its discretion, to issue cash or common stock or a combination thereof upon conversion. On or after July 1, 2008, the Company has the option to redeem all or a portion of the notes that have not been previously purchased, repurchased, or converted, in exchange for cash at 100% of the principal amount of the notes. The purchaser may require the Company to purchase all or a portion of its notes in cash on July 1, 2008 at 100% of the principal amount of the notes. As a result of this issuance, the Company received proceeds of $97.0 million, net of offering costs. The offering costs are included in other assets and are being amortized over a 5-year period. Interest expense from the amortization of offering costs in the amount of $600,000 is recorded in interest income, net during each of the years ended December 31, 2006, 2005, and 2004.

Note 13. Shareholders Equity

Preferred Stock. Each share of Series A preferred stock entitles the holder to one thousand votes and dividends equal to one thousand times the aggregate per share amount of dividends declared on the common stock. There are no shares of Series A preferred stock outstanding.

Undesignated preferred stock will have rights and preferences that are determinable by the Board of Directors when determination of a new series of preferred stock has been established.

Shareholder Rights Plan. On October 16, 1998, the Company s board of directors declared a dividend of one preferred share purchase right (Right) in connection with its adoption of a Shareholder Rights Plan dated December 4, 1998, for each outstanding share of the Company s common stock on December 14, 1998 (Record Date). Each share of common stock issued after the Record Date will be issued with an attached Right. The Rights will not immediately be exercisable and detachable from the common stock. The Rights will become exercisable and detachable only following the acquisition by a person or a group of 15 percent or more of the outstanding common stock or ten days following the announcement of a tender or exchange offer for 15 percent or more of the outstanding common stock (Distribution Date). After the Distribution Date, each Right will entitle the holder to purchase for $37.50 (Exercise Price) a fraction of a share of the Company s Series A preferred stock with economic terms similar to that of one share of the Company s common stock. Upon a person or a group acquiring 15 percent or more of the outstanding common stock, each Right will allow the holder (other than the acquirer) to purchase common stock or securities of the Company having a then current market

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

value of two times the Exercise Price of the Right. In the event that following the acquisition of 15 percent of the common stock by an acquirer, the Company is acquired in a merger or other business combination or 50 percent or more of the Company s assets or earning power are sold, each Right will entitle the holder to purchase for the Exercise Price, common stock or securities of the acquirer having a then current market value of two times the Exercise Price. In certain circumstances, the Rights may be redeemed by the Company at a redemption price of $0.0025 per Right. If not earlier exchanged or redeemed, the Rights will expire on December 4, 2008.

Equity Compensation Plans. The Company has six equity compensation plans (Plans) to compensate employees and Directors for past and future services. Generally, options vest based on continuous employment, over a four or five-year period. The options expire in either seven, ten, or twenty years from the date of grant and are exercisable at the fair market value of the common stock at the grant date.

Restricted Stock Units. In 2006, the Company granted restricted stock units representing 80,834 shares of common stock with a weighted average fair value of $11.38 pursuant to the Company s 2005 Stock Incentive Plan (2005 Plan). Each restricted stock unit granted reduces the shares available for grant under the 2005 Plan by 1.6 shares.

A summary of stock options and restricted stock units activity is as follows:

	Shares Available for Grant in (000 s)	Options Outstanding Number of Shares in (000 s)	Options Outstanding Weighted Average Exercise Price	Weighted Average Fair Value Grants
Balances, December 31, 2003	12,789	36,644	$ 7.05	
Options granted at or above common stock price	(9,130)	9,130	5.78	$ 2.78
Options granted below common stock price	(321)	321	1.32	4.40
Options exercised		(3,103)	2.20	
Options canceled	7,515	(7,515)	6.90	
Balances, December 31, 2004	10,853	35,477	7.13	
Additional shares authorized in the 2005 Plan[(1)]	7,397			
Options granted below common stock price	(10,633)	10,633	5.87	2.57
Options exercised		(3,631)	5.14	
Options canceled	6,857	(6,857)	7.03	
Balances, December 31, 2005	14,474	35,622	6.95	
Options granted at or above common stock price	(12,913)	12,913	10.05	4.53
Restricted stock units granted	(129)	80		11.38
Options exercised		(8,854)	5.99	
Options canceled	3,953	(3,953)	6.81	
Balances, December 31, 2006	5,385	35,808	$ 8.31	

(1) Pursuant to the provisions of the 2005 Stock Incentive Plan, shares available for grant as of December 31, 2005 were adjusted to reflect an additional 3.1 million available shares which were cancelled from previously expired Plans during 2005.

The fair value of options granted was determined using the Black-Scholes model and the following weighted average assumptions:

	Years Ended December 31,		
	2006	**2005**	**2004**
Expected dividend yield	0%	0%	0%
Risk-free interest rate	4.75%	3.76%	2.54%
Expected life (years)	4.3	4.4	4.4
Volatility	49%	54%	59%

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — *continued*

The following table summarizes information about stock options outstanding at December 31, 2006:

Exercise Prices		Options Outstanding Number of Shares (in 000 s)	Options Outstanding Weighted Average Remaining Contractual Life (Years)	Options Outstanding Weighted Average Exercise Price	Options Exercisable Number of Shares (in 000 s)	Options Exercisable Weighted Average Exercise Price
$ 0.00	$ 5.01	5,188	9.64	$ 4.19	2,497	$ 3.67
$ 5.03	$ 5.89	5,297	14.23	5.52	1,739	5.53
$ 5.90	$ 7.22	8,006	15.47	6.67	5,820	6.80
$ 7.24	$ 9.19	4,804	7.80	8.08	1,602	8.15
$ 9.26	$10.06	5,442	7.00	9.92	923	9.97
$10.06	$11.34	4,494	7.25	10.81	468	10.67
$11.37	$46.00	2,567	9.58	19.95	1,264	28.75
$46.18		10	12.69	48.18	10	46.18
		35,808	10.67	$ 8.31	14,323	$ 8.55

The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2006 was $94.2 million and $34.2 million, respectively.

Employee Stock Purchase Plan. In January 1998, the Company adopted an Employee Stock Purchase Plan (ESPP Plan) and has reserved 4.0 million shares of common stock for issuance under the ESPP Plan. Under the ESPP Plan, an eligible employee may purchase shares of common stock, based on certain limitations, at a price equal to 85 percent of the fair market value of the common stock at the end of the semi-annual offering periods. Under the ESPP Plan 213,000, 425,000, and 320,000 shares at a weighted average fair value of the employee stock purchase rights of $1.62, $3.14, and $1.95 were purchased during the years ended December 31, 2006, 2005, and 2004, respectively. The following weighted average assumptions were used to perform the calculation:

	Years Ended December 31, 2006	2005	2004
Expected dividend yield	0%	0%	0%
Risk-free interest rate	5.12%	2.69%	2.29%
Expected life (years)	0.5	0.5	0.5
Volatility	49%	54%	61%

Repurchase of Common Stock. In September 2001, the Company announced a share repurchase program to repurchase up to an aggregate of $50.0 million of its outstanding common stock. The Company repurchased 9.1 million shares of its common stock at an average cost of $4.64 per share for an aggregate value of $42.4 million from inception of the program through August 2005. There were no repurchases during 2005 or 2004 related to the September 2001 repurchase program. In August 2005, the Company s Board of Directors authorized a share repurchase program for the repurchase of up to an aggregate of $75.0 million of the Company s outstanding common stock. In November 2005, the Company s Board of Directors authorized a new share repurchase program for the repurchase of up to an aggregate of $100.0 million of the Company s outstanding common stock, which replaced the August 2005 repurchase program. Repurchases may be made from time to time, depending on market conditions, share price, and other factors in the open market or through private transactions, in accordance with SEC requirements. The Company entered into a Rule 10(b)5-1 plan designated to facilitate the repurchase. The repurchase program does not require the Company to acquire a specific number of shares and may be terminated under certain conditions. During 2005, under both the August 2005 and November 2005 repurchase programs, the Company repurchased 8.6 million shares at an average cost of $6.29 per share for an aggregate value of $54.3 million. During the quarter ended March 31, 2006 the Company purchased 9.5 million shares at an average cost of $8.09 per share for an aggregate value of $77.0 million.

In April 2006, the Company s Board of Directors authorized a new share repurchase program of up to an aggregate of $100.0 million of the Company s outstanding common stock. During the period from April 2006 to December 2006 the Company repurchased 2.3 million shares for an aggregate value of $21.9 million at an average cost of $9.44 per share. As of December 31, 2006, $78.1 million remained authorized for repurchase under the April 2006 repurchase program.

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 14. Income Taxes

Components of income (loss) before income taxes are as follows (in thousands):

	Years Ended December 31,		
	2006	2005	2004
United States operations	$ 228,668	$ 430,549	$ (24,300)
Foreign operations	(915)	(1,006)	1,825
Income (loss) before income taxes	$ 227,753	$ 429,543	$ (22,475)

Components of income tax expense are as follows (in thousands):

	Years Ended December 31,		
	2006	2005	2004
Current:			
United States Federal	$ 20,683	$ 8,055	$
State and local	3,643	1,362	
Foreign	3,225	549	522
Total current	27,551	9,966	522
Deferred:			
United States Federal	53,648	106,981	
State and local	3,206	748	
Foreign	(1,868)	(497)	
Total deferred	54,986	107,232	
Total income tax expense	$ 82,537	$ 117,198	$ 522

Income tax expense differs from expected income tax expense (computed by applying the U.S. Federal income tax rate of 35%) due to the following (in thousands):

	Years Ended December 31,		
	2006	2005	2004
United States federal tax expense (benefit) at statutory rate	$ 79,714	$ 150,340	$ (7,866)
State taxes, net of United States federal tax benefit	3,127	3,497	
Change in valuation allowance	1,757	(41,993)	10,409
Other	(2,061)	5,354	(2,021)
Total income tax expense	$ 82,537	$ 117,198	$ 522

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***continued***

Net deferred tax assets are comprised of the following (in thousands):

	December 31, 2006	December 31, 2005
Deferred tax assets:		
United States Federal net operating loss carryforwards	$ 17,521	$ 65,884
Deferred expenses	17,290	13,366
Net unrealized loss on investments	10,772	9,757
Capital loss carryforwards	7,713	1,804
Accrued loss on excess office facilities	5,212	6,547
Stock-based compensation	5,023	
State net operating loss carryforwards	2,636	5,072
Foreign net operating loss carryforwards	1,766	882
Cash rights liability	1,483	
Deferred revenue	715	2,727
Alternative minimum tax (AMT) carryforwards		8,055
Research and development credit carryforwards		7,084
Other	7,143	6,155
Gross deferred tax assets	77,274	127,333
Less valuation allowance	35,222	36,250
Gross deferred tax assets, net of valuation allowance	42,052	91,083
Deferred tax liabilities:		
Other intangible assets	(28,957)	
Net unrealized gains on investments	(6,973)	(15,490)
Other foreign deferred tax liabilities	(2,973)	
Prepaid expenses	(2,184)	(2,242)
Gross deferred tax liabilities	(41,087)	(17,732)
Net deferred tax assets	$ 965	$ 73,351

Income taxes currently payable were $8.5 million and $9.1 million at December 31, 2006 and 2005, respectively. The Company records a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the appropriate taxing jurisdictions. Based on an evaluation of expected future taxable income in 2007 and 2008 related primarily to the Company s settlement with Microsoft Corporation (outlined in Note 15), the Company determined it is more likely than not that certain deferred tax assets will be realized and therefore reversed the related valuation allowance on these assets in the fourth quarter of 2005. In 2006, the Company has continued to provide a valuation allowance on the deferred tax assets that the Company believes are not more likely than not to be utilized.

The net decrease in valuation allowance was $1.0 million and $220.4 million during the years ended December 31, 2006 and 2005, respectively. The valuation allowance increased by $10.4 million during the year ended December 31, 2004. The 2006 net decrease in the valuation allowance is comprised of an increase of $1.8 million due primarily to an increase in certain deferred tax assets and an decrease of $2.8 million for the write-off of state net operating loss carryforwards limited under Internal Revenue Code Section 382 that may expire unused. During 2005, $170.2 million of the reduction was recorded as an increase in additional paid-in-capital to reflect the use of net operating losses derived from the benefit of stock option exercises for tax purposes, $42.0 million was reflected in the Company s consolidated statement of operations, and $7.5 million was recorded as a reduction of goodwill to reduce the valuation allowance on net operating losses from acquired subsidiaries.

The Company s United States Federal net operating loss carryforwards totaled $50.0 million and $188.2 million at December 31, 2006 and 2005, respectively. These net operating loss carryforwards begin to expire between 2010 and 2024. In 2006, the remaining net operating loss carryforwards are from acquired subsidiaries that are limited under Internal Revenue Code Section 382. In the event that the Company generates taxable income to utilize these net operating loss carryforwards, goodwill will be reduced by $9.0 million.

The Company has not provided for U.S. deferred income taxes or withholding taxes on non-U.S. subsidiaries undistributed earnings. These earnings are intended to be permanently reinvested in operations outside of the U.S. If these amounts were distributed to the U.S., in the form of dividends or otherwise, the Company could be subject to additional U.S. income taxes. It is not

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

practicable to determine the U.S. federal income tax liability or benefit on such earnings due to the availability of foreign tax credits and the complexity of the computation, if such earnings were not deemed to be permanently reinvested.

As of December 31, 2006 the Company had not made a final determination to maintain WiderThan Americas, Inc., currently a wholly-owned subsidiary of WiderThan, as a direct subsidiary of WiderThan or as a direct subsidiary of RealNetworks, Inc. The determination of the final structure may impact the amount of deferred tax liability and goodwill, if the decision is made within a reasonable time from the date of acquisition. In general, if the decision is made after one year following the date of acquisition it may impact income tax expense.

Note 15. Commitments and Contingencies

Commitments. The Company has commitments for future payments related to office facilities leases and other contractual obligations. The Company leases office facilities under various operating leases expiring through September 2014. The Company also has other contractual obligations, primarily relating to minimum contractual payments due to content and other service providers, expiring over varying time periods in the future. Future minimum payments are as follows (in thousands):

	Office Leases	Other Contractual Obligations	Total
2007	$ 15,042	$ 2,959	$ 18,001
2008	14,491	2,656	17,147
2009	13,481	2,490	15,971
2010	12,159	2,330	14,489
2011	7,815		7,815
Thereafter	16,558		16,558
Total minimum payments	79,546	10,435	89,981
Less future minimum receipts under subleases	9,946		9,946
Net	$ 69,600	$ 10,435	$ 80,035

Of the total net office lease future minimum payments, $9.9 million is recorded in accrued loss on excess office facilities at December 31, 2006.

Rent expense during the years ended December 31, 2006, 2005, and 2004 was $8.5 million, $7.6 million, and $7.4 million, respectively.

Borrowing Arrangements. The Company s subsidiary WiderThan has entered into three lines of credit with three Korean domestic banks with an aggregate maximum available limit of $4.4 million at interest rates ranging from 1.5% to 1.6% over the rate earned on the underlying deposits. During the year ended December 31, 2006 the Company did not draw on these lines of credit and there were no outstanding balances as of December 31, 2006.

The employees of the Company s subsidiary, WiderThan, use corporate charge cards issued by a Korean domestic bank with a total line of credit of up to $5.6 million. The charged amounts are generally payable in the following month depending on the billing cycle and are included in accounts payable in the accompanying consolidated balance sheets. In general, the term of the agreement is for one year, with automatic renewal in April of each year. The agreement may be terminated in writing by mutual agreement between the bank and the Company. The Company is not subject to any financial or other restrictive covenants under the terms of this agreement.

The Company s subsidiary, WiderThan, has a letter of credit of up to $5.0 million with a Korean domestic bank for importing goods. This letter of credit facility has a one-year maturity (renewable every April), and carries an interest rate of 2.5% over the London Inter-Bank Offer Rate (LIBOR). Borrowings under this letter of credit are collateralized by import documents and goods being imported under such documentation. To the extent that the Company has any outstanding balance, the Company is subject to standard covenants and notice requirements under the terms of this facility, such as covenants to consult with the lender prior to engaging in certain events, which include, among others, mergers and acquisitions or sale of material assets or to furnish certain financial and other information. The Company is not, however, subject to any financial covenant requirements or other restrictive covenants that restrict the Company s ability to utilize this facility or to obtain financing elsewhere. During the year ended December 31, 2006 the Company did not draw on the letter of credit and there was no outstanding balance as of December 31, 2006.

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

The Company s subsidiary, WiderThan, has purchased guarantees amounting to $600,000 from Seoul Guarantee Insurance which guarantees payments for one year under certain supply contracts the Company has with a customer in Korea.

401(k) Retirement Savings Plan. The Company has a salary deferral plan (401(k) Plan) that covers substantially all employees. Under the plan, eligible employees may contribute up to 50% of their pretax salary, subject to the Internal Revenue Service annual contribution limits. During the years ended December 31, 2006 and 2005 the Company matched 50% of employee contributions to the 401(k) Plan, on up to three percent of participating employees compensation, and contributed $858,000 and $500,000, respectively, in matching contributions. The Company did not make matching contributions during 2004. The Company can terminate the matching contributions at its discretion. The Company has no other post-employment or post-retirement benefit plans.

Litigation. In August 2005, a lawsuit was filed against the Company in the U.S. District Court for the District of Maryland by Ho Keung Tse, an individual residing in Hong Kong. The suit alleges that certain of the Company s products and services infringe the plaintiff s patent relating to the distribution of digital files, including sound tracks, music, video and executable software in a manner which restricts unauthorized use. The plaintiff seeks to enjoin the Company from the allegedly infringing activity and to recover treble damages for the alleged infringement. The Company s co-defendants were granted a motion to transfer the lawsuit from the District of Maryland to the Northern District of California in 2006. The Company disputes the plaintiff s allegations in the action and intends to vigorously defend itself.

In June 2005, an association representing certain music producers in Korea sent the Company s WiderThan subsidiary a notice demanding payment of fees for the Company s use in its carrier application services since July 2004 of songs over which the association claims it holds certain rights. The Company used, and paid fees for, these songs under licensing agreements with independent music label companies and such agreements contain representations that these music label companies are the rightful, legal owner of the songs. Nevertheless, the association is claiming that it is the rightful owner. The Company is currently investigating the merit of the association s claims and the scope of any potential liability. Under the Company s licensing agreements, the independent music label companies are required to indemnify the Company for any losses resulting from their breach of representations. Should the Company become liable to the association in this matter, the Company intends to exercise its indemnity rights under its licensing agreements with the independent music label companies.

In June 2003, a lawsuit was filed against the Company and Listen.com, Inc. (Listen) in federal district court for the Northern District of Illinois by Friskit, Inc. (Friskit), alleging that certain features of the Company s and Listen s products and services willfully infringe certain patents relating to allowing users to search for streaming media files, to create custom playlists, and to listen to the streaming media file sequentially and continuously. Friskit seeks to enjoin the Company from the alleged infringing activity and to recover treble damages from the alleged infringement. The Company has filed its answer and a counterclaim against Friskit challenging the validity of the patents at issue. The trial court has also granted the Company s motion to transfer the action to the Northern District of California. The Company disputes Friskit s allegations in this action and intends to vigorously defend itself.

In December 2003, the Company filed suit against Microsoft Corporation (Microsoft) in the U.S. District Court for the Northern District of California, pursuant to U.S. and California antitrust laws, alleging that Microsoft has illegally used its monopoly power to restrict competition, limit consumer choice, and attempt to monopolize the field of digital media. On October 11, 2005, the Company and Microsoft entered into a settlement agreement pursuant to which the Company agreed to settle all antitrust disputes worldwide with Microsoft, including the U.S. litigation. Upon settlement of the legal disputes, the Company and Microsoft entered into two commercial agreements that provide for collaboration in digital music and casual games. The combined contractual payments related to the settlement agreement and the two commercial agreements to be made by Microsoft to the Company over the terms of the agreements are $761.0 million. As of December 31, 2006, Microsoft had paid the Company $699.9 million under the agreements for which the Company recorded a gain of $220.4 million and $422.5 million, during 2006 and 2005, respectively, that is included in antitrust litigation (benefit) expenses, net in the statement of operations and comprehensive income (loss). The remaining $61.1 million was received from Microsoft in January 2007.

From time to time the Company is, and expects to continue to be, subject to legal proceedings and claims in the ordinary course of its business, including employment claims, contract-related claims, and claims of alleged infringement of third-party patents, trademarks and other intellectual property rights. These claims, including those described above, even if not meritorious, could force the Company to spend significant financial and managerial resources. The Company is not aware of any legal proceedings or claims that the Company believes will have, individually or taken together, a material adverse effect on the Company s business, prospects, financial condition or results of operations. However, the Company may incur substantial expenses in defending against third-party claims and certain pending claims are moving closer to trial. The Company expects that its potential costs of defending these claims may increase as the disputes move into the trial phase of the proceedings. In the event of a determination adverse to the Company, the Company may incur substantial monetary liability, and/or be required to change its business practices. Either of these could have a material adverse effect on the Company s financial position and results of operations.

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 16. Guarantees

In the ordinary course of business, the Company is not subject to potential obligations under guarantees that fall within the scope of FIN No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34*, except for standard indemnification and warranty provisions that are contained within many of the Company s customer license and service agreements, and give rise only to the disclosure requirements prescribed by FIN No. 45.

Indemnification and warranty provisions contained within the Company s customer license and service agreements are generally consistent with those prevalent in the Company s industry. The duration of the Company s product warranties generally does not exceed 90 days following delivery of the Company s products. The Company has not incurred significant obligations under customer indemnification or warranty provisions historically and does not expect to incur significant obligations in the future. Accordingly, the Company does not maintain accruals for potential customer indemnification or warranty-related obligations.

Note 17. Segment Information

The Company operates in two business segments: Consumer Products and Services and Technology Products and Solutions, for which the Company receives revenue from its customers. The Company s Chief Operating Decision Maker is considered to be the Company s CEO Staff (CEOS), which is comprised of the Company s Chief Executive Officer, Chief Financial Officer, President, and Senior Vice Presidents. The CEOS reviews financial information presented on both a consolidated basis and on a business segment basis, accompanied by disaggregated information about products and services and geographical regions for purposes of making decisions and assessing financial performance. The CEOS reviews discrete financial information regarding profitability of the Company s Consumer Products and Services and Technology Products and Solutions segments and, therefore, the Company reports these as operating segments as defined by SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information*.

The Company s customers consist primarily of end users located in the U.S., Korea, and various foreign countries. Revenue by geographic region is as follows (in thousands):

	Years Ended December 31,		
	2006	**2005**	**2004**
United States	$ 283,433	$ 249,855	$ 202,574
Europe	62,270	44,867	40,222
Asia	46,291	27,916	21,439
Rest of the World	3,267	2,421	2,484
Total net revenue	$ 395,261	$ 325,059	$ 266,719

The Company s segment revenue is defined as follows:

Consumer Products and Services segment primarily includes revenue from: digital media subscription services such as Rhapsody, RadioPass, GamePass and SuperPass; sales and distribution of third-party software and services; sales of digital content such as music and game downloads; sales of premium versions of our RealPlayer and related products; and advertising. These products and services are sold and provided primarily through the Internet and the Company charges customers credit cards at the time of sale. Billing periods for subscription services typically occur monthly, quarterly or annually, depending on the service purchased.

Technology Products and Solutions segment includes revenue from: sales of video-on-demand, music-on-demand, ringback tones, and messaging services; sales of our media delivery system software, including Helix system software and related authoring and publishing tools, both directly to customers and indirectly through original equipment manufacturer (OEM) channels; support and maintenance services that we sell to customers who purchase our software products; broadcast hosting services; and consulting services we offer to our customers. These products and services are primarily sold to corporate customers.

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

Revenue by segment is as follows (in thousands):

	Years Ended December 31,		
	2006	**2005**	**2004**
Consumer Products and Services	$ 322,772	$ 279,964	$ 218,343
Technology Products and Solutions	72,489	45,095	48,376
Total net revenue	$ 395,261	$ 325,059	$ 266,719

Consumer Products and Services revenue is comprised of the following (in thousands):

	Years Ended December 31,		
	2006	**2005**	**2004**
Music	$ 123,033	$ 101,769	$ 68,190
Media software and services	113,503	121,918	115,618
Games	86,236	56,277	34,535
Total Consumer Products and Services revenue	$ 322,772	$ 279,964	$ 218,343

Long-lived assets, consisting of equipment, software, and leasehold improvements, other intangible assets, and goodwill by geographic region are as follows (in thousands):

	December 31,	
	2006	**2005**
United States	$ 172,846	$ 148,732
Republic of Korea	256,032	
Europe	26,807	14,771
Rest of the World	6,289	302
Total	$ 461,974	$ 163,805

Net assets by geographic location are as follows (in thousands):

	December 31,	
	2006	**2005**
United States	$ 621,532	$ 826,480
Republic of Korea	314,106	
Europe	26,298	14,623
Rest of the World	7,830	630
Total	$ 969,766	$ 841,733

Goodwill is assigned to the Company s segments as follows (in thousands):

	December 31, 2006	December 31, 2005
Consumer Products and Services	$ 131,997	$ 117,340
Technology Products and Solutions	177,125	5,990
Total goodwill, net	$ 309,122	$ 123,330

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***continued***

Reconciliation of segment operating income (loss) to income (loss) before income taxes during the year ended December 31, 2006 is as follows (in thousands):

	Consumer Products and Services	Technology Products and Solutions	Reconciling Amounts	Consolidated
Net revenue	$ 322,772	$ 72,489	$	$ 395,261
Cost of revenue	101,995	22,113		124,108
Gross profit	220,777	50,376		271,153
Loss on excess office facilities			738	738
Antitrust litigation benefit, net			(220,410)	(220,410)
Other operating expenses	242,385	57,935		300,320
Operating income (loss)	(21,608)	(7,559)	219,672	190,505
Total non-operating expenses, net			37,248	37,248
Income (loss) before income taxes	$ (21,608)	$ (7,559)	$ 256,920	$ 227,753

Reconciliation of segment operating income (loss) to income (loss) before income taxes during the year ended December 31, 2005 is as follows (in thousands):

	Consumer Products and Services	Technology Products and Solutions	Reconciling Amounts	Consolidated
Net revenue	$ 279,964	$ 45,095	$	$ 325,059
Cost of revenue	90,104	8,145		98,249
Gross profit	189,860	36,950		226,810
Antitrust litigation benefit, net			(422,500)	(422,500)
Other operating expenses	197,902	54,041		251,943
Operating income (loss)	(8,042)	(17,091)	422,500	397,367
Total non-operating expenses, net			32,176	32,176
Income (loss) before income taxes	$ (8,042)	$ (17,091)	$ 454,676	$ 429,543

Reconciliation of segment operating income (loss) to income (loss) before income taxes during the year ended December 31, 2004 is as follows (in thousands):

			Reconciling	

	Consumer Products and Services	Technology Products and Solutions	Amounts	Consolidated
Net revenue	$ 218,343	$ 48,376	$	$ 266,719
Cost of revenue	83,968	8,239		92,207
Loss on content agreement	4,938			4,938
Gross profit	129,437	40,137		169,574
Loss on excess office facilities			866	866
Antitrust litigation expenses, net			11,048	11,048
Other operating expenses	128,299	51,084		180,383
Operating income (loss)	138	(10,947)	(11,914)	(22,723)
Total non-operating expenses, net			248	248
Income (loss) before income taxes	$ 138	$ (10,947)	$ (11,666)	$ (22,475)

Operating expenses of both Consumer Products and Services and Technology Products and Solutions include costs directly attributable to those segments and an allocation of general and administrative and other corporate overhead costs. General and administrative and other corporate overhead costs are allocated to the segments and are generally based on the relative head count of each segment. The accounting policies used to derive segment results are generally the same as those described in Note 1.

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REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

Note 18. Quarterly Information (Unaudited)

The following table summarizes the unaudited statement of operations for each quarter of 2006 and 2005 (in thousands, except per share data):

	Total	Dec. 31	Sept. 30	June 30	Mar. 31
2006:					
Net revenue	$395,261	$125,574	$93,676	$89,409	$86,602
Gross profit	271,153	83,254	65,287	62,763	59,849
Operating income	190,505	52,107	57,201	49,659	31,538
Net income	145,216	39,302	42,153	38,878	24,883
Basic net income per share(1)	0.90	0.24	0.26	0.24	0.15
Diluted net income per share(1)	0.81	0.22	0.24	0.22	0.14
2005:					
Net revenue	$325,059	$ 83,568	$82,233	$82,686	$76,572
Gross profit	226,810	59,592	57,538	57,845	51,835
Operating income (loss)	397,367	402,384	(129)	(5,087)	199
Net income	312,345	295,640	11,182	4,709	814
Basic net income per share(1)	1.84	1.76	0.07	0.03	0.00
Diluted net income per share	1.70	1.61	0.06	0.03	0.00

(1) The sum of the quarterly net income per share will not necessarily equal the net income per share for the year due to the effects of rounding.

Results for the quarter ended December 31, 2006 include the acquisition of WiderThan.

The operating income and net income during the quarter ended December 31, 2005 was higher compared to the other periods presented due primarily to the impact of the settlement and commercial agreements with Microsoft. For further discussion regarding these agreements, refer to Note 15, *Litigation.*

In May 2005, the Company entered into a purchase agreement with a third-party vendor to acquire certain products and services. The Company was to be invoiced for the products and services at the time of receipt by the vendor. During the quarter ended December 31, 2005, the Company decided to cancel the purchase agreement. As a result, the Company recorded a loss of $8.5 million during the quarter ended December 31, 2005 in order to reflect the products and services that have been delivered, or to which the Company had committed, at their net realizable value.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
RealNetworks, Inc.:

We have audited the accompanying consolidated balance sheets of RealNetworks, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations and comprehensive income (loss), shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RealNetworks, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of RealNetworks, Inc. s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP
Seattle, Washington
February 26, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
RealNetworks, Inc.:

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting, appearing under Item 9A, that RealNetworks, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that RealNetworks, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, RealNetworks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

RealNetworks, Inc. acquired WiderThan Co., Ltd. during 2006, and management excluded from its assessment of the effectiveness of WiderThan Co., Ltd. s internal control over financial reporting as of December 31, 2006, WiderThan Co., Ltd. s internal control over financial reporting associated with total assets of $431,681,000 and net revenue of $26,670,000 included in the consolidated financial statements of RealNetworks, Inc. as of and for the year ended December 31, 2006. Our audit of internal control over financial reporting of RealNetworks, Inc. also excluded an evaluation of the internal control over financial reporting of WiderThan Co., Ltd.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of RealNetworks, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations and comprehensive income (loss), shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 26, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
February 26, 2007

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PART III.

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item is contained in part in the sections captioned Proposal 1-Election of Directors-Nominees for Director, Board of Directors-Continuing Directors-Not Standing for Election This Year, Executive Compensation-Contractual Arrangements and Voting Securities and Principal Holders-Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement for RealNetworks Annual Meeting of Shareholders scheduled to be held on or around June 25, 2007, and such information is incorporated herein by reference.

The remaining information required by this Item is set forth in Part I of this report under the caption Executive Officers of the Registrant.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to the information contained in the section captioned Executive Compensation of the Proxy Statement for RealNetworks Annual Meeting of Shareholders scheduled to be held on or around June 25, 2007.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this Item is incorporated by reference to the information contained in the sections captioned Voting Securities and Principal Holders of the Proxy Statement for RealNetworks Annual Meeting of Shareholders scheduled to be held on or around June 25, 2007.

Equity Compensation Plans

As of December 31, 2006, we had awards outstanding under six equity compensation plans. These plans include the RealNetworks, Inc. 1995 Stock Option Plan (1995 Plan), the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated (1996 Plan), the RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated (2000 Plan), the RealNetworks, Inc. 2005 Stock Incentive Plan (2005 Plan), the RealNetworks, Inc. 2002 Director Stock Option Plan (2002 Plan), and the RealNetworks, Inc. Director Compensation Stock Plan (Director Stock Plan). The 1995 Plan, 1996 Plan, 2002 Plan, 2005 Plan, and Director Stock Plan have been approved by our shareholders. The 2000 Plan has not been approved by our shareholders.

In 2005, our shareholders approved the 2005 Plan. Upon approval of the 2005 Plan, we terminated the 1995 Plan, the 1996 Plan, the 2000 Plan and the 2002 Plan. As a result of the termination of these Plans, all equity awards granted subsequent to June 9, 2005 will be issued under the 2005 Plan.

The following table aggregates the data from our six plans:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (in 000 s) (a)	Weight-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (in 000 s) (c)
Equity compensation plans approved by security holders	35,263	$ 8.27	5,385(1)
	545	$ 10.74	

Equity compensation plans not approved by security holders			
Total	35,808	$ 8.31	5,385

(1) Excludes 318,331 shares available for future issuance under the Director Stock Plan which enables non-employee Directors of RealNetworks to receive all or a portion of their quarterly compensation for Board service in shares of RealNetworks Common Stock in lieu of cash. The number of shares of Common Stock to be issued in respect of quarterly fees payable to non-employee Directors is equal to the amount of such fees to be paid in shares of Common Stock, as elected by each non-member Director, divided by the market value of a share of Common Stock on the last

business day of
each calendar
quarter.

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Equity Compensation Plans Not Approved By Security Holders. The Board of Directors adopted the 2000 Plan to enable the grant of nonqualified stock options to employees and consultants of RealNetworks and its subsidiaries who are not otherwise officers or directors of RealNetworks. The 2000 Plan has not been approved by RealNetworks shareholders. The Compensation Committee of the Board of Directors is the administrator of the 2000 Plan, and as such determines all matters relating to options granted under the 2000 Plan. In June 2005, the 2000 Plan was terminated and the remaining available shares were transferred to the 2005 Plan.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is incorporated by reference to the information contained in the section captioned Executive Compensation-Certain Relationships and Related Transactions of the Proxy Statement for RealNetworks Annual Meeting of Shareholders scheduled to be held on or around June 25, 2007.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference to the information contained in the section captioned Fees Billed By KPMG LLP During 2005 and 2006 of the Proxy Statement for RealNetworks Annual Meeting of Shareholders scheduled to be held on or around June 25, 2007.

PART IV.

Item 15. Exhibits and Financial Statement Schedules

(a) (3) **Index to Exhibits**

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization by and among RealNetworks, Inc., Symphony Acquisition Corp. I, Symphony Acquisition Corp. II, Listen.Com, Inc., Mellon Investor Services LLC, as Escrow Agent and Robert Reid, as Shareholder Representative dated as of April 21, 2003 (incorporated by reference from Exhibit 2.1 to RealNetworks, Inc. s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission on August 14, 2003)
2.2	Combination Agreement by and among RealNetworks, Inc., RN International Holdings B.V. and WiderThan Co., Ltd. dated as of September 12, 2006 (incorporated by reference from Exhibit 2.1 to RealNetworks Current Report on Form 8-K filed with the Securities and Exchange Commission on September 14, 2006)
3.1	Amended and Restated Articles of Incorporation (incorporated by reference from Exhibit 3.1 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 filed with the Securities and Exchange Commission on August 11, 2000)
3.2	Amended and Restated Bylaws (incorporated by reference from Exhibit 3.2 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998 filed with the Securities and Exchange Commission on November 13, 1998)
3.3	Amendment No. 1 dated April 22, 2003 to Amended and Restated Bylaws of RealNetworks, Inc. Adopted July 16, 1998 (incorporated by reference from Exhibit 3.1 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission on August 14, 2003)
4.1	Shareholder Rights Plan dated as of December 4, 1998 between RealNetworks, Inc. and Mellon Investor Services LLC (formerly Chase Mellon Shareholder Services, L.L.C.) (incorporated by reference from Exhibit 1 to RealNetworks Registration Statement on Form 8-A12G filed with the Securities and Exchange Commission on December 14, 1998)

4.2	Amendment No. 1 dated as of January 21, 2000 to Shareholder Rights Plan between RealNetworks, Inc. and Mellon Investor Services LLC (formerly Chase Mellon Shareholder Services, L.L.C.) (incorporated by reference from Exhibit 1 to RealNetworks Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on February 7, 2000)

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Exhibit Number	Description
4.3	Amendment No. 2 dated as of May 30, 2000 to Shareholder Rights Plan between RealNetworks, Inc. and Mellon Investor Services LLC (formerly Chase Mellon Shareholder Services, L.L.C.) (incorporated by reference from Exhibit 1 to RealNetworks Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on June 8, 2000)
4.4	Third Amended and Restated Investors Rights Agreement dated March 24, 1998 by and among RealNetworks, Inc. and certain shareholders of RealNetworks (incorporated by reference from Exhibit 10.16 to RealNetworks Annual Report on Form 10-K for the year ended December 31, 1997 filed with the Securities and Exchange Commission on March 30, 1998)
4.5	Indenture dated as of June 17, 2003 between RealNetworks, Inc. and U.S. Bank National Association, including the form of Zero Coupon Subordinated Note due 2010 included in Section 2.2 thereof (incorporated by reference from Exhibit 4.1 to RealNetworks Amendment No. 1 to Registration Statement on Form S-3 filed with the Securities and Exchange Commission on November 18, 2003)
4.6	Registration Rights Agreement dated as of June 17, 2003, between RealNetworks, Inc. and Goldman, Sachs & Co. (incorporated by reference from Exhibit 4.3 to RealNetworks Registration Statement on Form S-3 filed with the Securities and Exchange Commission on September 12, 2003)
10.1	RealNetworks, Inc. 1995 Stock Option Plan (incorporated by reference from Exhibit 99.1 to RealNetworks Registration Statement on Form S-8 filed with the Securities and Exchange Commission on September 14, 1998)
10.2	RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10.1 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 filed with the Securities and Exchange Commission on August 13, 2001)
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10.7	Forms of Stock Option Agreement under the RealNetworks, Inc. 2002 Director Stock Option Plan (incorporated by reference from Exhibit 10.3 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 filed with the Securities and Exchange Commission on November 14, 2002)
10.8	RealNetworks, Inc. 1998 Employee Stock Purchase Plan, as amended and restated on December 15, 2005 (incorporated by reference from Exhibit 10.8 to RealNetworks Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2006)
10.9	RealNetworks, Inc. Director Compensation Stock Plan (incorporated by reference from Exhibit 10.10 to RealNetworks Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission on March 15, 2004)
10.10	RealNetworks, Inc. 2005 Stock Incentive Plan (incorporated by reference from Exhibit 10.1 to RealNetworks Current Report on Form 8-K filed with the Securities and Exchange Commission on June 15, 2005)

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Exhibit Number		Description
10.11	**	Form on Non-Qualified Stock Option Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive Plan
10.12	**	Form of Restricted Stock Units Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive Plan
10.13		Lease dated January 21, 1998 between RealNetworks, Inc. as Lessee and 2601 Elliott, LLC, as amended (incorporated by reference from Exhibit 10.1 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 filed with the Securities and Exchange Commission on November 9, 2004)
10.14		Form of Director and Officer Indemnification Agreement (incorporated by reference from Exhibit 10.14 to RealNetworks Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 26, 1997 (File No. 333-36553))
10.15		Voting Agreement dated September 25, 1997 by and among RealNetworks, Robert Glaser, Accel IV L.P., Mitchell Kapor and Bruce Jacobsen (incorporated by reference from Exhibit 10.17 to RealNetworks Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 26, 1997 (File No. 333-36553))
10.16		Agreement dated September 26, 1997 by and between RealNetworks and Robert Glaser (incorporated by reference from Exhibit 10.18 to RealNetworks Registration Statement on Form S-1 filed with the Securities and Exchange Commission on September 26, 1997 (File No. 333-36553))
10.17		Offer Letter dated March 31, 2005 between RealNetworks, Inc. and John Giamatteo (incorporated by reference from Exhibit 10.1 to RealNetworks Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2005)
10.18		Offer Letter dated September 18, 2003 between RealNetworks, Inc. and Dan Sheeran (incorporated by reference from Exhibit 10.18 to RealNetworks Annual Report on form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2005)
10.19		Offer Letter dated February 13, 2006 between RealNetworks, Inc. and Michael Eggers (incorporated by reference from Exhibit 10.19 to RealNetworks Annual Report on form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2006)
10.20		Offer Letter dated April 2, 2004 between RealNetworks, Inc. and Sid Ferrales (incorporated by reference from Exhibit 10.20 to RealNetworks Annual Report on form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2006)
10.21		Agreement dated February 1, 2006 between RealNetworks, Inc. and Rob Glaser (incorporated by reference from Exhibit 10.1 to RealNetworks Current Report on Form 8-K filed with the Securities and Exchange Commission on February 3, 2006)
10.22		

	Agreement dated November 30, 2005 between RealNetworks, Inc. and Bob Kimball (incorporated by reference from Exhibit 10.22 to RealNetworks Annual Report on form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2006)
10.23	Agreement dated November 30, 2005 between RealNetworks, Inc. and Dan Sheeran (incorporated by reference from Exhibit 10.23 to RealNetworks Annual Report on form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2006)
10.24*	Amended and Restated Settlement Agreement dated as of March 10, 2006 between RealNetworks, Inc. and Microsoft Corporation (incorporated by reference from Exhibit 10.24 to RealNetworks Annual Report on form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 16, 2006)
14.1	RealNetworks, Inc. Code of Business Conduct and Ethics (incorporated by reference from Exhibit 14.1 to RealNetworks Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission on March 15, 2004)

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Exhibit Number	Description
21.1**	Subsidiaries of RealNetworks, Inc.
23.1	Consent of KPMG LLP
24.1**	Power of Attorney
31.1	Certification of Robert Glaser, Chairman and Chief Executive Officer of RealNetworks, Inc., Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Michael Eggers, Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks, Inc., Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Robert Glaser, Chairman and Chief Executive Officer of RealNetworks, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Michael Eggers, Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Executive Compensation Plan or Agreement

* Portions of the Agreement are subject to confidential treatment

** Previously filed with RealNetworks Annual Report on Form 10-K for the year ended December 31, 2006.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on May 30, 2007.

REALNETWORKS, INC.

By: /s/ MICHAEL EGGERS
Michael Eggers
Senior Vice President, Chief Financial Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated below on May 30, 2007.

Signature	Title
* Robert Glaser	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ MICHAEL EGGERS Michael Eggers	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
* Eric A. Benhamou	Director
* Edward Bleier	Director
* James W. Breyer	Director
* Jeremy Jaech	Director
* Jonathan D. Klein	Director
* Kalpana Raina	Director

*By: /s/ MICHAEL EGGERS

Attorney-in-fact

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Exhibit Index

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization by and among RealNetworks, Inc., Symphony Acquisition Corp. I, Symphony Acquisition Corp. II, Listen.Com, Inc., Mellon Investor Services LLC, as Escrow Agent and Robert Reid, as Shareholder Representative dated as of April 21, 2003 (incorporated by reference from Exhibit 2.1 to RealNetworks, Inc. s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission on August 14, 2003)
2.2	Combination Agreement by and among RealNetworks, Inc., RN International Holdings B.V. and WiderThan Co., Ltd. dated as of September 12, 2006 (incorporated by reference from Exhibit 2.1 to RealNetworks Current Report on Form 8-K filed with the Securities and Exchange Commission on September 14, 2006)
3.1	Amended and Restated Articles of Incorporation (incorporated by reference from Exhibit 3.1 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000 filed with the Securities and Exchange Commission on August 11, 2000)
3.2	Amended and Restated Bylaws (incorporated by reference from Exhibit 3.2 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998 filed with the Securities and Exchange Commission on November 13, 1998)
3.3	Amendment No. 1 dated April 22, 2003 to Amended and Restated Bylaws of RealNetworks, Inc. Adopted July 16, 1998 (incorporated by reference from Exhibit 3.1 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission on August 14, 2003)
4.1	Shareholder Rights Plan dated as of December 4, 1998 between RealNetworks, Inc. and Mellon Investor Services LLC (formerly Chase Mellon Shareholder Services, L.L.C.) (incorporated by reference from Exhibit 1 to RealNetworks Registration Statement on Form 8-A12G filed with the Securities and Exchange Commission on December 14, 1998)
4.2	Amendment No. 1 dated as of January 21, 2000 to Shareholder Rights Plan between RealNetworks, Inc. and Mellon Investor Services LLC (formerly Chase Mellon Shareholder Services, L.L.C.) (incorporated by reference from Exhibit 1 to RealNetworks Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on February 7, 2000)
4.3	Amendment No. 2 dated as of May 30, 2000 to Shareholder Rights Plan between RealNetworks, Inc. and Mellon Investor Services LLC (formerly Chase Mellon Shareholder Services, L.L.C.) (incorporated by reference from Exhibit 1 to RealNetworks Registration Statement on Form 8-A12G/A filed with the Securities and Exchange Commission on June 8, 2000)
4.4	Third Amended and Restated Investors Rights Agreement dated March 24, 1998 by and among RealNetworks, Inc. and certain shareholders of RealNetworks (incorporated by reference from Exhibit 10.16 to RealNetworks Annual Report on Form 10-K for the year ended December 31, 1997 filed with the Securities and Exchange Commission on March 30, 1998)

4.5	Indenture dated as of June 17, 2003 between RealNetworks, Inc. and U.S. Bank National Association, including the form of Zero Coupon Subordinated Note due 2010 included in Section 2.2 thereof (incorporated by reference from Exhibit 4.1 to RealNetworks Amendment No. 1 to Registration Statement on Form S-3 filed with the Securities and Exchange Commission on November 18, 2003)
4.6	Registration Rights Agreement dated as of June 17, 2003, between RealNetworks, Inc. and Goldman, Sachs & Co. (incorporated by reference from Exhibit 4.3 to RealNetworks Registration Statement on Form S-3 filed with the Securities and Exchange Commission on September 12, 2003)
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	Act of 2002
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