Comstock Homebuilding Companies, Inc.
Form 10-K
March 31, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

Commission file number 1-32375

Comstock Homebuilding Companies, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-1164345**
(State or Other Jurisdiction of Incorporation or Organization)	***(I.R.S. Employer Identification No.)***

11465 Sunset Hills Road

5th Floor

Reston, Virginia 20190

(703) 883-1700

(Address, including zip code, and telephone number, including area code, of principal executive offices)

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

None

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

Class A common stock, par value $.01 per share

(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 ¨ No þ

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 ¨ 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 ¨

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 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. ¨

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 ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company þ

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

The aggregate market value of voting and non-voting common equity held by nonaffiliates of the registrant (11,721,847 shares) based on the last reported sale price of the registrant s common equity on the NASDAQ Global Market on June 30, 2008, which was the last business day of the registrant s most recently completed second fiscal quarter, was $4,219,865. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

As of March 23, 2009, there were outstanding 15,211,499 shares of the registrant s Class A common stock, par value $.01 per share, and 2,733,500 shares of the registrant s Class B common stock, par value $.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

COMSTOCK HOMEBUILDING COMPANIES, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2008

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business
Overview

We are a residential real estate developer that has substantial experience building a diverse range of products including single-family homes, townhouses, mid-rise condominiums, high-rise multi-family buildings and mixed-use (residential and commercial) developments in suburban communities and high density urban infill areas. We have historically built projects with the intent that they be sold either as fee-simple properties, condominiums, or investment properties. We focus on geographic areas, products and price points where we believe there will be continuing demand for new housing and potential for attractive returns. We operate in the Washington, D.C., Raleigh, North Carolina, and Atlanta, Georgia markets where we target first-time, early move-up, secondary move-up, and empty nester move-down buyers. We focus on the middle-market meaning that we tend to offer products in the middle price points in each market, avoiding the very low-end and high-end products. We believe our middle market strategy positions our products such that they are affordable to a significant segment of potential home buyers in our markets. Since our founding in 1985, and as of December 31, 2008, we have built and delivered more than 5,170 homes generating revenue in excel of $1.3 billion.

Our markets have historically been characterized by strong population and economic growth trends that have led to strong demand for traditional housing. However, the housing industry is in an unprecedented and prolonged cyclical downturn, suffering the effects of reduced demand brought on by significant increases in existing home inventory, resistance to appreciating prices of new homes, turmoil in the mortgage markets, reduced liquidity levels in the world financial markets, increasing unemployment and concerns about the health of the national and global economies. We believe over the past two decades we have gained experience that will be helpful to us as we seek to manage our business through the current difficult market environment. We believe we have taken, and are continuing to take, steps that will assist us in managing our business through the current cycle until market conditions stabilize and eventually improve. There can be no assurances, however, that we will be able to generate and maintain sufficient cash resources to survive long enough for market conditions to improve in a meaningful way.

As a result of deteriorating market conditions, we have adjusted certain aspects of our business strategy. In 2008, we focused our energy on repositioning projects, reducing debt, reducing costs, managing cash resources, renegotiating loans with current period and near-term maturities, refinancing projects and enhancing our balance sheet. We have cancelled or postponed plans to start several new projects and either renegotiated or cancelled contracts to purchase certain other projects. As a result, we purchased no new land in 2008. We have sold certain land and other assets and taken steps to significantly reduce our inventory of speculative homes as well. Until market conditions stabilize, we will continue to focus on working through the land inventory we own. This will include continuing efforts to sell certain land parcels where we believe it is the best strategy relative to that particular asset.

While we have always preferred to purchase finished building lots that are developed by others, we have also been active in entitling and developing land for many of our home building projects. We believe it is important to have the in-house capabilities to manage the entitlement and development of land in order to position our company to be able to recognize opportunities to enhance the value of the real estate we develop and to be opportunistic in our approach to acquisitions. Nonetheless, our interest in any potential acquisitions of new development projects will most likely be focused on finished building lots until market conditions and circumstances warrant otherwise. As such, we have significantly reduced our in-house development staff.

During the past several years our business has included the development, redevelopment and construction of residential mid-rise and high-rise condominium complexes. The majority of our multi-family projects are in our core market of the greater Washington, D.C. area. We believe the demographics and housing trends in the Washington, DC area will generate demand for high density housing and mixed-use developments over the long term. However, condominium sales in the greater Washington, D.C. area have declined significantly as a result of current economic conditions. In order to reduce the cost associated with carrying our condominium inventory in the Washington, DC region, we are temporarily operating two of our multi-family projects as hybrid for-sale and for-rent properties. This approach provides us regular cash flow which we use to offset a portion of the operating and financing costs associated with the applicable multi-family projects. In addition, we believe the value of the projects will increase over time as market conditions stabilize or improve. In Raleigh, North Carolina and Atlanta, Georgia, our inventory continues to be concentrated in lower density housing which is principally single family homes.

Our business was founded in 1985 by Christopher Clemente, our current Chief Executive Officer, as a residential land developer and home builder focused on the move-up home market in the Northern Virginia suburbs of the Washington, D.C area. Prior to our initial public offering in December 2004, we operated our business through four primary holding companies. In connection with our initial public offering, these primary holding companies were consolidated and merged into Comstock Homebuilding Companies, Inc., which was incorporated in Delaware in May 2004. Our principal executive offices are located at 11465 Sunset Hills Road, 5th floor, Reston, Virginia 20190, and our telephone number is (703) 883-1700. Our Web site is *www.comstockhomebuilding.com.* References to Comstock, we, our and us refer to Comstock Homebuilding Companies, Inc. together in each case with our subsidiaries and any predecessor entities unless the context suggests otherwise.

Our Markets

We have operations in the greater Washington, D.C., Raleigh, North Carolina and Atlanta, Georgia markets. In each of these markets job growth in recent years has led to population growth. This in turn led to increased demand for new homes and home price appreciation. The double digit pace of price appreciation in some areas led to inflationary pressures on the costs associated with producing homes (increases in cost of land, labor and materials). Rapidly appreciating home values also attracted undercapitalized investors who were not committed to ownership of the homes and condominiums they sought to purchase. As a result, when market conditions cooled, contract cancellations increased which led to an increased inventory of speculative homes held by builders. The number of existing homes available for sale by individuals also increased significantly. This supply/demand imbalance created significant pressure on homebuilders to increase selling concessions and to reduce prices. At the same time turmoil in the mortgage markets created uncertainty regarding the availability of mortgage financing and concerns about the reduced liquidity levels in the U.S. financial system and the health of the national economy caused prospective home buyers to stay out of the market. At this time it is nearly impossible to predict with accuracy the future levels of demand for new housing in our markets. We expect, based on recent year-over-year trends, to continue to experience depressed demand for new housing and pricing pressures throughout 2009 continuing into 2010.

Our Liquidity

The greatest challenge we face in the current real estate market is liquidity. As a result of the global credit crisis facing banks and other non-traditional lenders we have very limited ability to generate capital through borrowing. With demand slow and continued price erosion on our homes the spread between the net selling price of our homes and the financing costs associated with the homes we sell has been compressed to the point where there is little or no cash flow being generated by sales activity. Our stock price has been dramatically depressed and the use of our stock as currency at these trading prices would be impractical and would compromise the preservation of our carry-forward net operating losses. The combination of these and other liquidity constraints have forced us to rethink the way we operate on a daily basis. A continued lack of adequate access to liquidity will force us to once again resize our operations and may result in the Company either filing for bankruptcy protection or being forced to liquidate.

Our Business Strategy

Our general business strategy has been to focus on for-sale residential real estate development opportunities in the Mid-Atlantic and Southeastern United States that afford us the ability to produce products at price points where we believe there is significant long-term demand for new housing. Recognizing the housing industry is cyclical in nature and current challenging market conditions will take time to stabilize, we have adapted our business plan and strategy with the goal of protecting liquidity, enhancing our balance sheet, product and service line expansion and positioning the Company for

Table of Contents

future growth and profitability when the economy begins to improve. In connection with this strategy we have adopted a conservative approach to land acquisition and capital investment which favors future acquisitions of finished building lots and we have postponed all plans for market expansion. We remain committed to working with our lenders to identify mutually beneficial means of disposing of assets that do not allow for adequate return on invested capital. We believe this approach will assist us in managing our business through today s challenging market conditions.

Our general operating business strategy has the following key elements:

Protect liquidity and maximize capital availability. For as long as market demand for housing remains depressed we will remain highly focused on preserving liquidity by limiting our investments in long term real estate projects. We will again seek to build our pipeline of building lots when market conditions warrant through a cautious and measured approach focused on acquisition of developed building lots. The acquisition of finished building lots has reduced equity requirements, as compared to raw land parcels that require entitlement and development, which enhances return on invested capital. In addition, in order to maintain sufficient operating liquidity and capital availability we will continue to sell certain assets that are either highly leveraged or have significant cash equity. We will also continue to reduce overhead where and when possible.

Maximize the realized value of our real estate owned. Due to our depth of experience in many different aspects of real estate development we believe we are able to continuously evaluate and re-evaluate the use of the real estate we own and therefore are well positioned to identify alternative uses for the inventory that may increase the value of such properties. We have been successful in selling certain condominium assets as for-rent properties where the subject property holds a higher total value for a rental property owner that it otherwise would for individual homeowners in the aggregate. In properties where a bulk sale is impractical we are attempting to maximize short term cash flow and minimize net debt service obligations by temporarily operating certain properties as hybrid for-sale and for-rent properties.

Utilize technology to streamline operations, reduce costs, enhance customer communications and facilitate sales. During 2008, we continued advancing our technological capabilities with a focus on reducing costs, attracting sales and communicating with our customers. Upgrades of our information management, purchasing, customer relationship management and accounting systems that began prior to 2008 were either completed or substantially completed during the period. These enhanced platforms will allow us to manage our business more efficiently and better seek to reduce and control costs.

Rationalize overhead expenses. We believe the key to success in our business in difficult times is balancing and aligning our staffing levels with the size of our business and continually working to reduce general and administrative expenses as market conditions shift. At the same time, we believe that a recovery will come and we want to be staffed in such a way that we can operate until a recovery comes and identify opportunities along the way to capitalize on undervalued assets.

Focus on our core markets in the Mid-Atlantic and Southeast Region of the United States. We believe that, after current homebuilding industry and general economic conditions eventually stabilize and then improve, there may be attractive opportunities for long term growth in our existing markets. Accordingly, we intend to maintain appropriately sized operations in our current markets until such time as the condition of the national economy and the housing industry warrant a broader focus.

Focus on our current land inventory in our core markets. We plan to focus on maximizing our returns on the inventory of land that we hold in our core markets while utilizing our strong local presence and our extensive experience in our core markets to enhance our access to building lots that are developed by others. We believe that, after current homebuilding industry and general economic conditions eventually stabilize and then improve, homebuilders will have better access to reasonably priced developed building lots and that by focusing future land acquisition efforts on developed lots we will reduce risks associated with land development and enhance returns on capital invested. Our experience in previous economic downturns is that land purchase terms improve as a result of soft demand for new homes.

Focus on a broad segment of the home buying market, aka the middle market . Our single-family homes, townhouses and condominiums are deliberately designed to be priced in the middle range of the market. This is because we believe that by focusing on products that are affordable to the largest segment of the prospective home buying population we reduce risk to market fluctuations. As we look for opportunities created by the current downturn we will be focused on projects either positioned or easily repositioned for our middle-market orientation.

Create opportunities in areas overlooked by our competitors. We believe our market knowledge and experience in land entitlement and development enable us to successfully identify attractive real estate opportunities, efficiently manage the process of obtaining development rights and maximize land value. We plan to maintain these capabilities because we believe that this expertise allows us to protect the value of the assets that we hold while also positioning us to react quickly to new, favorable opportunities. As current homebuilding industry and general economic conditions eventually stabilize and then improve, we believe there will be attractive market opportunities for well-designed, quality homes and condominiums in urban and suburban areas in close proximity to transportation facilities.

Maximize our economies of scale where practical. We apply a production home builder approach to all of our product categories. In many instances, we utilize plans across multiple markets which we have built numerous times. This repetitive manufacturing process allows us to minimize cost through value engineering resulting from previous field experience. We are also able to coordinate labor and material purchasing under bulk contracts thereby reducing unit costs. As a result, we are able to realize economies of scale in the purchase of raw materials, supplies, manufactured inputs and labor.

Aggressively pursue recovery of losses through litigation. We are the Plaintiff, and also a defendant, in two significant law suits relating to both the Eclipse and Belmont Bay projects (as described in Item 3). We intend to commit significant company resources to the prosecution and defense of these efforts over the next twelve months. This commitment of resources may come at the expense of other real estate and homebuilding investments, but we believe the potential returns justify the risks.

Our Operations

We operate a separate homebuilding division in each of our core markets. Each divisional operation is wholly owned by Comstock Homebuilding Companies, Inc., or a subsidiary thereof. Each division is made up of a local division management team, production team and sales team. Each division relies on services provided by the Company covering land underwriting and acquisition, legal, accounting, information technology,

Table of Contents

human resources, marketing, sales training, purchasing, and finance. We believe this is an efficient manner of operating our Company because each divisional operation is staffed locally based on the size of the subject division while the core services provided by the corporate parent help minimize repetitive staffing requirements. Previous acquisitions of Parker Chandler Homes (Atlanta) and Capitol Homes (Raleigh) have been fully integrated into our operational structure.

Each division management team is typically compensated based on the performance results of the respective division and the overall performance of the Company. Sales team compensation is commission based. As market conditions have deteriorated, we have carefully reduced the size of our staff at each division and at the corporate parent. We continuously monitor market conditions to ensure that we only staff at warranted levels. In addition, given current market and economic conditions we will not start construction of a new home unless it is pre-sold to a qualified buyer with a substantial deposit posted and financing in place.

Land Identification and Acquisition

We believe that by controlling and managing a land inventory through options as opposed to owning land we will be better able to manage future growth in accordance with our business plan and long term objectives. In the past we have acquired land for our home building operations both as finished building lots and as raw land that we develop. Through the acquisition of Parker Chandler Homes (Atlanta) and Capitol Homes (Raleigh) our land inventory expanded significantly. Due to the focus the acquired companies had on developing raw land, the amount of raw land in our land inventory increased. As market conditions deteriorated, we have sold certain land and other assets to reduce interest expense and risks associated with land development. We will continue to manage our land inventory in a manner that we believe will reduce risks and enhance operating results.

We will continue to focus on maximizing our returns on the land inventory that we control while shifting our focus for future land acquisitions, when market conditions warrant and liquidity exists, towards finished building lots. Our goal during this down cycle is to survive relatively intact as an operating business and to capitalize on distress in the marketplace by contracting to purchase land from land developers who will maintain ownership of the land through the entitlement and development process. If and when we option land in this manner we typically provide our home building and entitlement expertise to the seller in order to ensure the land is developed in a manner consistent with our plans for the project. By contracting to purchase land that will be delivered to us in the future and only utilizing our resources as project managers we reduce the financial risks associated with owning land while seeking entitlements and performing land development.

We own land that must be developed into building lots. While market conditions remain difficult we will continue to utilize our strategy of seeking to sell certain of these assets to other developers and will only develop these raw parcels of land as needed for our home building operations where we believe market conditions and the potential return on capital invested warrants the development process.

In the past we have purchased existing rental apartment properties in the Washington, DC region with the intent of converting them to for-sale condominium projects. We have completed some of these conversion developments and sold others as market conditions deteriorated. We own one partially completed condominium conversion property, Penderbrook, in Fairfax County, Virginia. While we continue to sell converted condominiums at the Penderbrook development we also operate Penderbrook as a rental apartment community. This approach provides cash flow from rents to offset interest costs and operating expenses associated with the property. We have not abandoned our intent to sell the units as condominiums over time.

Table of Contents

We have also elected to employ this strategy at our Eclipse project in Arlington, Virginia where we are temporarily renting approximately half of the unsold units to generate cash flow. In certain cases we have sold condo conversion units in bulk to rental project investors and operators. We do not plan to acquire additional condominium conversion projects.

In the Washington, DC region we have developed several new condominium projects, including high density mixed use projects. We believe that the demographics of the Washington, DC region will over time continue to lead to demand for high quality, high density housing after current market conditions eventually stabilize and then improve. These types of projects tend to require a greater capital investment, higher levels of debt and longer construction cycles than typical low density single family developments. Due to current market conditions we will be focused on identifying future projects that require lower levels of invested capital. Accordingly, we have cancelled plans to commence additional high density condominium projects and will not undertake any such development until we believe market conditions warrant.

Our land acquisition and disposition process is overseen by an executive land committee that includes representatives from our various business departments. This committee meets regularly to evaluate prospective land acquisitions, project financing options, underperforming projects, asset dispositions and liquidity issues. During much of 2008, the primary focus of the committee was disposing of assets where we believed it to be the best course of action given market conditions. Currently the committee is focused on evaluating existing projects and land holdings with the goal of seeking means of enhancing the potential for improved operating results or immediate monetization.

When market conditions improve, and assuming our level of land inventory and availability of capital warrant additional acquisitions, the committee will again focus on new land acquisitions. To the extent the committee approves any such acquisitions, we will focus on acquiring new projects we believe have the potential to generate an attractive return on capital invested. The committee evaluates several factors that could affect the outcome of a project under consideration. These factors include:

- supply and absorption rates of similar new home projects;
- supply and absorption rates of existing homes in the area;
- projected equity requirements;
- projected return on invested capital;
- status of land development entitlements;
- projected net margins of homes to be sold by us;
- projected absorption rates;
- demographics, school districts, transportation facilities and other location factors; and
- competitive market positioning.

Our acquisition due diligence process involves a high level of scrutiny which includes a variety of analyses, including land title examination, applicable zoning evaluations, environmental analysis, soil analysis, utility availability studies, and marketing studies that review population and employment trends, school districts, access to regional transportation facilities, prospective home buyer profiles, sales forecasts, projected construction costs, labor and material availability, assessment of political risks and other factors.

Table of Contents

Land Entitlement and Development

We have extensive knowledge and experience in all aspects of the site selection, land planning, entitlement and land development processes. Specifically, we have significant experience in dealing with the governmental and regulatory authorities that govern the site development and entitlement processes. Entitlement is the process by which a local government determines the density it will permit to be developed on a particular property and approves the development plans. Obtaining entitlements and development permits often requires significant negotiations with local governmental authorities, and various other parties, including local homeowner associations, environmental protection groups and federal governmental agencies. Our extensive experience and knowledge allow us to effectively negotiate with all concerned parties in an attempt to ensure the costs of developing the subject property are commensurate with the profit potential of the proposed development.

Our experience and in-house capabilities enable us to quickly assess the likelihood of obtaining necessary approvals on a particular property, the estimated costs associated with development of a particular property, and the potential development challenges associated with a particular property. As a result, we can control the details of development, from the design of each community entryway to the placement of streets, utilities and amenities, in order to efficiently design a development that we believe will maximize the potential return on our investment in the property.

Because of our experience in obtaining entitlements and because of our in-house land development capability we believe we are well suited to work with land developers to ensure their development plans are efficient and designed in keeping with our development objectives. Further, we believe that these capabilities position us well to work with financial institutions seeking to sell land assets on which they have foreclosed.

In current market conditions we seek to manage development risk by acquiring options to purchase properties after the approval of the necessary entitlements and full development of the land. We utilize our capabilities with regard to land entitlement and land development to provide a service to land owners in an effort to obtain low cost options to acquiring the subject land after the entitlement and development process is complete, thereby avoiding market risks associated with raw land acquisitions and minimizing capital exposure to the projects.

Sales, Marketing and Production

We sought diversification and growth through multiple product offerings that were to be utilized in a few core markets rather than seeking to grow into multiple markets. We believe this strategy minimizes risks associated with entering new markets and operating in second or third tier markets.

Our primary target markets are first-time; early-move up and first move-down home buyers. We have a wide variety of product lines and custom options for our products that enable us to meet the specific needs of each of our markets and each of our home buyers. We seek to design products that can, whenever possible, be utilized in each of our core markets. We believe that our diversified product strategy enables us to best serve a wide range of home buyers in our target demographics and adapt quickly to changing market conditions. We continually reevaluate and improve upon our existing product designs and develop new product offerings to keep up with changing consumer demands and emerging market trends.

Our single-family homes range in size from approximately 1,400 square feet to over 6,000 square feet with target pricing from the $100,000s to the $600,000s. Our townhouses range in size from approximately 1,200 square feet to over 4,500 square feet and are typically priced from the $100,000s to the $500,000s depending on the market. Our condominiums range in size from approximately 400 square feet to over 2,400 square feet and are priced from the $100,000s to over $1 million. Our average new order price over all product types, was $284,000, $240,000 and $257,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

We typically act as the general contractor in the construction of our wood frame single-family homes, townhouses and mid-rise condominium buildings. On projects where we offer these product lines our employees provide land development management, construction management, material purchasing and quality control supervision on the homes we build. Substantially all construction work on these types of projects is done by subcontractors that contract directly with our home building subsidiaries and with whom we typically have an established relationship. On our

Table of Contents

high-rise and mixed-use developments where we typically build concrete structures, we engage a general contractor for the site preparation and construction management, and our preference is to have a bonded fixed price or a gross maximum price contract with the selected general contractor. In these instances the subcontractors that perform the construction work are typically contracted directly by the general contractor that we select. On projects where we offer these product lines our employees provide land development oversight management, construction quality supervision and certain construction management services. In all instances we follow generally accepted management procedures and construction techniques which are consistent with local market practices. We believe that we comply with local and state building codes on all of our developments.

Our goal is to commence construction on a single-family home only after a contract is signed, a customer deposit has been posted, and mortgage approval has been obtained by the home buyer. We generally begin construction of our townhouses and condominiums after we have obtained customer pre-sale commitments for a significant percentage of the units in the building and our lender commits to funding all units. Current market conditions have caused us to significantly limit or eliminate the construction of unsold inventory, including model homes. We closely monitor our inventory applying a measured approach to unit production in keeping with sales absorption. We will continue to have reduced building at our projects as we work through the process of selling existing inventory first. On occasion we will sell a completed model home to a third party investor purchaser who is willing to lease back the home to us for use during the marketing phase of a project.

To facilitate the sale of our products, we normally build, decorate, furnish and landscape model homes for each product line and maintain onsite sales offices. In most cases, we employ in-house commissioned sales personnel to sell our homes. On occasion we will contract for marketing services with a third party brokerage firm. All personnel engaged in the sale of Comstock homes receive extensive training in the sales process from our in-house sales training group. We strive to provide a high level of customer service during the sales process. Through multi-lingual home buying seminars, relationships with preferred mortgage lenders and utilization of a series of proprietary custom marketing programs, we are able to educate our prospective purchasers, prepare our customers for home ownership and help our homebuyers obtain a mortgage tailored to their specific needs.

Our unique NextHome^{tm} programs are designed to assist our customers in many aspects of purchasing a Comstock home, as follows:

DownRight	a program designed to help identify ways to meet the down payment requirements of a new home purchase;
Tailor Made	a program with unique financing products and agreements with major lenders that tailor a monthly payment in order to make home ownership affordable in any interest rate climate;
Get It Sold	a program designed to help our customers sell their current home quickly and efficiently in order to facilitate their purchase of a new Comstock home;
All@Home	a program enabling our customers to design technology solutions for their new Comstock home to met their individual specifications;
Built Right	a quality assurance program incorporating quality assurance inspections with high-quality materials; and
Home Style	an optional upgrade program providing hundreds of options to choose from to customize a new Comstock home to suit the specific desires of our customers.

All personnel involved in the sale of our homes receive extensive training on the product they are selling. In addition, our sales professionals are trained on the specialized programs offered by us in connection with the purchasing, customizing and financing of a Comstock home and the warranty we provide. We employ our sales personnel on a long-term basis, rather than a project-by-project basis, which we believe results in a more committed and motivated sales force with better product knowledge. We believe this continuity has a positive impact on sales.

Table of Contents

Our corporate and local marketing directors work with local project and sales managers to develop marketing objectives, sales strategies, and advertising and public relations programs for our projects. These objectives, strategies and home pricing decisions are subject to approval by senior management. We typically build, decorate, furnish and landscape model homes for each product line and maintain onsite sales offices, which are generally open seven days a week. We believe model homes play a critical role in our marketing efforts. Where warranted, we sell certain projects from a centralized location in an effort to reduce capital investment requirements in particular projects.

Our homes are typically sold before construction through sales contracts that are accompanied by a 3-10% deposit. Such sales contracts are usually subject to certain contingencies such as the home buyer s ability to qualify for financing. Cancellation rates are subject to a variety of factors beyond our control such as consumer confidence, negative media hype relating to homebuilding adverse economic conditions which lower consumer confidence, increase mortgage interest rates and negatively affect the sale of our existing homes. During 2008 our cancellation rate decreased across all products in all of our markets resulting an and a decrease in the existence of standing inventory.

During 2008 we continued increased our efforts to focus on lower cost marketing over the Internet in an effort to reduce costs associated with local print advertisements. We believe that the home buying population will continue to increase its reliance on information available on the Internet to help guide their home buying decision. Accordingly, our marketing efforts will continue to seek to leverage this trend in an effort to maximize potential sales.

During 2006 we opened a centralized sales center located in Reston, Virginia. This facility was designed to support cross-product and cross-community shopping in one central location. In 2007 we closed the sales center, and it will not be reopened. The center was not operational in 2008. During 2008 we negotiated a termination of the lease by which we issued the landlord a warrant to purchase 50,000 shares of our Class A Common Shares.

Our Communities

At December 31, 2008 we had active communities under development in the following states and counties:

State	**County**
Georgia	Cherokee, Forsyth, Fulton, Gwinnett, Jackson, Paulding
Maryland	Frederick
North Carolina	Johnson, Wake
Virginia	Arlington, Fairfax, Loudoun, Prince William

Table of Contents

The following chart summarizes certain information for our current and planned communities at December 31, 2008:

tents

market data. When determining base salaries, the Compensation Committee also considers other factors including the salaries establishe positions in companies in our industry and geographic region, salaries paid to executives at other companies with which we compete fo talent, the historical and comparative compensation levels of our executives and the executive s performance in the preceding year. Ba from time to time to recognize various levels of responsibility, individual performance, market conditions and internal equity issues, an ments are at the discretion of the Compensation Committee.

2008, the Compensation Committee approved the following merit-based increases in the annual base salaries of Messrs. Eggers, Giama art of the annual executive performance evaluation process:

	Merit-Based Salary Increases (%)	Base Salary	Effective
gers	10%	$ 291,500	February
teo	8%	$ 410,400	February
ball	10%	$ 330,000	February

ases in February 2008 for Messrs. Eggers, Giamatteo and Kimball were based on individual performance, base salary market levels and ility.

3 and January 2009, the Compensation Committee approved the following merit-based increases in the annual base salaries of matteo, Kimball and Lunsford in connection with the promotions described below and the increased scope of their roles and responsibil

	Merit-Based Salary Increases (%)	Base Salary	Effective
teo	6%	$ 435,000	June 2
ball	12%	$ 370,000	October
sford	6%	$ 370,000	June 2

. *Giamatteo.* In June 2008, Mr. Giamatteo was promoted to Chief Operating Officer of RealNetworks. In connection with this omotion, the Compensation Committee approved a merit-based salary increase of approximately 6% in recognition of . Giamatteo s expanded role and responsibility for managing the overall business operations of RealNetworks. Effective upon his omotion, Mr. Giamatteo s annual base salary was established at $435,000.

. *Kimball.* In January 2009, Mr. Kimball was promoted to Executive Vice President, Corporate Development and Law, General unsel and Corporate Secretary of RealNetworks. In connection with this promotion, the Compensation Committee approved a rit-based salary increase of approximately 12% in recognition of Mr. Kimball s expanded role and responsibility for overseeing all porate development and legal matters for RealNetworks. Effective October 1, 2008, Mr. Kimball s annual base salary was ablished at $370,000. The Compensation Committee recognized that Mr. Kimball had assumed the increased responsibilities ociated with his new role prior to the formal approval of his promotion, and therefore approved the annual base salary adjustment roactive to October 1, 2008. The Compensation Committee also considered internal base salary data for other executive officers ving at the Executive Vice President level when establishing Mr. Kimball s annual base salary in connection with his promotion.

. *Lunsford.* In January 2008, Mr. Lunsford joined RealNetworks as Senior Strategic Advisor reporting to our Chief Executive ficer. At the commencement of Mr. Lunsford s employment, the Compensation Committee established Mr. Lunsford s annual base ary at $350,000. The Compensation Committee determined the amount of Mr. Lunsford s annual base salary based on market levels executives having similar roles and responsibilities and in recognition of his recent professional experience serving as a senior ecutive officer of Earthlink, Incorporated, a provider of communications services, including eight months serving as interim sident and chief executive officer from November 2006 to June 2007.

tents

3, Mr. Lunsford was promoted to Executive Vice President of Strategic Ventures of RealNetworks. In connection with this promotion, th on Committee approved a merit-based salary increase of approximately 6% in recognition of Mr. Lunsford s expanded role and respons g all of RealNetworks strategic venture businesses, including its music business. Effective upon his promotion, Mr. Lunsford s annua stablished at $370,000.

nsation Committee recognizes that in light of overall economic conditions, RealNetworks must be prudent in how it utilizes resources an ts in order to ensure its long term success. Accordingly, for 2009, it has determined that merit-based adjustments in the annual base sala ks executive officers whose performance evaluation process typically occurs during the first quarter each year will be postponed and re . The Compensation Committee will base its reassessment on overall economic conditions and RealNetworks year-to-date performanc

e-based Cash Incentive Compensation. In 2008, the Compensation Committee of the Board of Directors of RealNetworks approved the Plan, a performance-based cash incentive plan that provides direct financial incentives in the form of semi-annual cash bonuses with the promoting the achievement of corporate and/or divisional revenue and EBITDA target goals. Participants in the 2008 MBO Plan includ cutive Officers other than the Chief Executive Officer and Chief Financial Officer, as well as certain other officers and employees. The Plan was designed to provide rewards for semi-annual financial results in 2008. Awards under the 2008 MBO Plan were paid semi-annu omatic and were dependent on the achievement of identified goals and objectives. When designing the 2008 MBO Plan, the Compensat determined that RealNetworks performance-based cash incentive program should have greater alignment with business unit performan nd business unit leaders. As a result, the Compensation Committee approved new performance measures in the 2008 MBO Plan that em t performance for divisional and business unit leaders in addition to overall corporate performance measures. Notwithstanding the perfo argets established under the 2008 MBO Plan, the Compensation Committee retained discretion to adjust performance and payout target rs warrant variation from the formula established under the 2008 MBO Plan, and may also increase, decrease or eliminate a participant aid. Under the 2008 MBO Plan, executive officers must be employed by RealNetworks as an officer on the first and last day of a quarte arn incentive compensation for that quarter. In addition, executive officers must be employed on the day payments are made in order to ceive payment, except in the case of death, disability or termination of employment by RealNetworks other than for cause.

008 MBO Plan, no portion of the target payout is paid if less than 90% of the revenue target is achieved. For achievement of 90%-100% et, participants are paid 40%-100% of the portion of the target payout based on achievement of the revenue target, and for achievement of the revenue target, participants are paid up to 160% of the target payout based on achievement of the revenue target. Payouts based of EBITDA targets will be paid out linearly from 0-100% with additional linear payouts up to a maximum of 160% for profitable units evement at 100% or greater. There is no performance threshold for the EBITDA-based target payout, except in rare instances where the get is a negative number.

of the 2008 MBO Plan payout mechanics is as follows:

Revenue		EBITDA	
tainment	Incentive Payout	Attainment	Incentive P
<90%	No payout	0 - 100%	0 - 100
% - 100%	40% - 100%	>100% - 160%	Up to 16
0% - 110%	Up to 160%		

gets for the 2008 MBO Plan were established at the beginning of the plan year and were derived from our strategic business plan. Rever gets were established based on aggressive growth percentages year over year designed to align with the Compensation Committee s ph performance goals for executives, and accordingly, were generally considered difficult to achieve.

15

mining the payout amounts under the 2008 MBO Plan for the second half of 2008, the Compensation Committee approved certain discre in corporate and divisional revenue and EBITDA results in connection with special items including (a) significant fluctuations in foreig he second half of 2008, (b) the write-off of transaction-related costs associated with the separation of our games business from the pare hich has been postponed and (c) losses associated with the decline in value of our goodwill and certain application service provider and ements. The Compensation Committee determined that these adjustments were appropriate because the special items reflected macroec nd accounting requirements over which the executives had no control. In addition, the Compensation Committee determined that it was o recognize our executives for their efforts in a difficult economic environment.

008 MBO Plan, corporate revenue attainment in the second half of 2008 before adjustments related to foreign currency fluctuations was ls. Following these adjustments, corporate revenue attainment in the second half of 2008 was 88.5% of target goals. While the minimur evenue attainment under the 2008 MBO Plan is based on attainment of at least 90% of target goals, the Compensation Committee appro ment of 20% of the corporate revenue performance metric for executives whose performance-based compensation under the 2008 MBO ally on corporate revenue and corporate EBITDA targets, including Mr. Kimball. The Compensation Committee agreed that a discretion o corporate revenue attainment for these executives was appropriate because two out of our four business units exceeded 90% of their re e second half of 2008 and because overall revenue attainment was very close to 90% of the corporate revenue target. Since the threshold ith revenue attainment is established at 40% for an attainment level of 90% of the revenue goals under the 2008 MBO Plan, the Compe determined that a payout of 20% of the corporate revenue metric was appropriate recognition of the performance of these executives.

008 MBO Plan, corporate EBITDA attainment in the second half of 2008, before adjustments related to the special items described abov t goals. Following these adjustments, corporate EBITDA attainment was 48.59% of target goals. In addition, the Compensation Commi scretionary adjustments to Technology Products and Solutions (TPS) revenue, which is a component of Mr. Giamatteo s performanc ve compensation, as a result of foreign currency fluctuations in the second half of 2008. Before these adjustments, TPS revenue attainme alf of 2008 was 90.5% of target goals. Following these adjustments, TPS revenue attainment in the second half of 2008 was 95.2% of ta

the Compensation Committee approved discretionary adjustments to EBITDA in the second half of 2008 for all business units in conne cial items described above. Before these adjustments, EBITDA attainment in the second half of 2008 for the TPS and Media Software a MSS) divisions, on which 25% of Mr. Giamatteo s performance-based cash incentive compensation is based, was 22% and 70% of tar Following these adjustments, EBITDA attainment in the second half of 2008 for the TPS and MSS divisions was 69% and 78% of targ tively. Before these adjustments, EBITDA attainment in the second half of 2008 for the Music division, on which 25% of Mr. Lunsford -based cash incentive compensation is based, was 119% of target goals. Following these adjustments, EBITDA attainment in the secon Music division was 181% of target goals.

Eggers participated in a separate discretionary cash bonus program, which is discussed further below, and was not eligible to participat Plan. This separate program is designed to maintain appropriate independence for key control executives.

. *Giamatteo.* Mr. Giamatteo serves as RealNetworks Chief Operating Officer, and this position entails more responsibility for ategic operating decisions and a greater direct influence on overall company performance than most executive positions. Therefore, . Giamatteo has a greater percentage of his total compensation opportunity tied to short-term and long-term incentives than most ecutive officers.

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alf of 2008, Mr. Giamatteo was eligible to earn a target of 100% of his annual base salary in performance-based cash incentive compens
08 MBO Plan based equally on the achievement of RealNetworks consolidated revenue and EBITDA targets and the revenue and EB
e TPS division. In the first half of 2008, Mr. Giamatteo earned cash incentive compensation based on 100.14% achievement of corpora
ets, 126.07% achievement of corporate EBITDA targets, 97.27% achievement of revenue targets for the TPS division and 106.8% achi
targets for the TPS division, resulting in an incentive cash compensation payout of approximately 102.63% of the targeted payment for
t period.

d half of 2008, Mr. Giamatteo s cash bonus opportunity pursuant to the 2008 MBO Plan was based equally on the achievement of Real
revenue and EBIDTA targets and the revenue and EBITDA targets for the TPS and Media Software and Services (MSS) divisions.
of 2008, Mr. Giamatteo earned cash incentive compensation based on 88.5% achievement of corporate revenue targets, 48.59% achieve
BITDA targets, 94.68% achievement of revenue for the TPS and MSS divisions and 71.8% achievement of EBITDA targets for the TPS
ns, resulting in an incentive cash compensation payout of 47.11% of the targeted payment for the measurement period. Mr. Giamatteo c
rate revenue-based payout in the second half of 2008. The achievement levels in the second half of 2008 reflect discretionary adjustmen
revenue and EBITDA results as described above.

Giamatteo earned performance-based cash incentive compensation under the 2008 MBO Plan as follows:

e Metric	First Half 2008 Payout Attainment	First Half 2008 Payout Amount		Second Half 2008 Payout Attainment(1)	Second Hal Payout Am
evenue	100.14%	$	49,818	88.50%	$
BITDA	126.07%	$	62,278	48.59%	$
e	97.27%	$	41,307		
A	106.8%	$	49,400		
evenue				94.68%	$
BITDA				71.80%	$
out Attainment and Total	**102.63%**	**$**	**202,803**	**47.11%**	**$ 1**

s discretionary adjustments to revenue and EBITDA results in the second half of 2008 approved by the Compensation
ttee.

007 and 2008, Mr. Giamatteo was eligible to participate in a separate performance-based cash incentive plan (the TPS Incentive Plan
eligible to earn up to $750,000 in each year based on the achievement of revenue targets for our WiderThan Co., Ltd. subsidiary and ou
are generally considered difficult to achieve. Mr. Giamatteo may earn cash incentive compensation under this plan based on target
ranging from 81% to 100% achievement against the established revenue targets, with proportionate payout of awards ranging from 5%
ding on the achievement level. Amounts earned under the TPS Incentive Plan are paid semi-annually. The Compensation Committee ha
adjust performance and payout targets if certain factors warrant variation from the formula established under the TPS Incentive Plan. I
eo earned cash incentive compensation under this plan at an achievement level of 88.6%, resulting in an award of performance-based ca
mpensation to Mr. Giamatteo in the amount of $323,288. In calculating the payout of the award for performance in the second half of 2
on Committee approved the application of the same foreign currency rate used in calculating the payout of the award for performance i
2008 due to significant fluctuations in the value of the Korean won compared to the U.S. dollar in the second half of 2008. The Compe
greed that this adjustment was appropriate because the shortfall in revenue attainment was attributable to foreign currency fluctuations
iamatteo had no control.

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Giamatteo earned performance-based cash incentive compensation under the TPS Incentive Plan as follows:

Half 2008 Attainment	First Half 2008 Payout Amount	Second Half 2008 Payout Attainment	Second Ha Payout A
48%	$179,788	38%	$143,5

. *Kimball.* In the first three quarters of 2008, Mr. Kimball was eligible to earn a target of 45% of his annual base salary in formance-based cash incentive compensation under the 2008 MBO Plan based equally on the achievement of consolidated revenue l EBITDA targets. Effective October 1, 2008, Mr. Kimball s target bonus opportunity under the 2008 MBO Plan was increased to % of his annual base salary in connection with his promotion to Executive Vice President, Corporate Development and Law, neral Counsel and Corporate Secretary. In the first half of 2008, Mr. Kimball earned cash incentive compensation under the 08 MBO Program based on 100.14% achievement of corporate revenue targets and 126.07% achievement of EBITDA targets, ulting in a payout of approximately 113.46% of the targeted payment for the measurement period. In the second half of 2008, . Kimball earned cash incentive compensation under the 2008 MBO Program based on 88.5% achievement of corporate revenue gets, and 48.59% achievement of corporate EBITDA targets, resulting in a payout of 34.3% of the targeted payment for the asurement period. The achievement levels in the second half of 2008 reflect discretionary adjustments to consolidated revenue and ITDA results as described above.

Kimball earned performance-based cash incentive compensation under the 2008 MBO Plan as follows:

e Metric	First Half 2008 Payout Attainment	First Half 2008 Payout Amount	Second Half 2008 Payout Attainment(1)	Second Hal Payout Am
evenue	100.14%	$ 35,738	88.50%	$
BITDA	126.07%	$ 44,675	48.59%	$
out Attainment and Total	**113.46%**	**$ 80,413**	**34.30%**	**$**

s discretionary adjustments to revenue and EBITDA results in the second half of 2008 approved by the Compensation ttee.

. *Lunsford.* Mr. Lunsford was eligible to earn a target of 45% of his annual base salary in performance-based cash incentive npensation under the 2008 MBO Program, as adjusted pro rata to his date of hire in January 2008. During the first half of 2008, . Lunsford s cash incentive compensation was based equally on the achievement of consolidated revenue and EBITDA targets. In first half of 2008, Mr. Lunsford earned cash incentive compensation based on 100.14% achievement of corporate revenue targets l 126.07% achievement of corporate EBITDA targets, resulting in an incentive cash compensation payout of approximately 3.46% of the targeted payment for the measurement period. In the second half of 2008, Mr. Lunsford earned cash incentive npensation based on 88.5% achievement of corporate revenue targets, 48.59% achievement of corporate EBITDA targets, 84.41% hievement of revenue targets for the Music division and 144.8% achievement of EBITDA targets for the Music division, resulting in incentive cash compensation payout of 37.15% of the targeted payment for the measurement period. Mr. Lunsford did not earn porate or Music revenue-based payouts in the second half of 2008. The achievement levels in the second half of 2008 reflect cretionary adjustments to revenue and EBITDA results as described above.

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Lunsford earned performance-based cash incentive compensation under the 2008 MBO Plan as follows:

e Metric	First Half 2008 Payout Attainment	First Half 2008 Payout Amount		Second Half 2008 Payout Attainment(1)	Second Hal Payout Am
evenue	100.14%	$	33,600	88.50%	$
BITDA	126.07%	$	42,002	48.59%	$
nue				84.41%	$
DA				144.80%	$
out Attainment and Total	**113.46%**	**$**	**75,602**	**37.15%**	**$**

s discretionary adjustments to revenue and EBITDA results in the second half of 2008 approved by the Compensation ttee.

009, the Compensation Committee of the Board of Directors of RealNetworks approved the 2009 Executive MBO Incentive Plan (the) Plan). The 2009 MBO Plan is a performance-based cash incentive plan that pays cash awards to participants semi-annually based on of corporate and/or divisional revenue and EBITDA target goals as of the close of each calendar six-month period. Participants in the Plan include the Named Executive Officers other than the Chief Executive Officer and the Chief Financial Officer, as well as certain oth employees of RealNetworks.

09 MBO Plan, the target payout for Mr. Giamatteo is equal to 100% of his annual base salary, and the target payout for Messrs. Kimba equal to 75% of their annual base salaries. Mr. Lunsford s target payout was increased from 45% in connection with his promotion to E nt, Strategic Ventures in 2008. For Mr. Giamatteo, payout under the 2009 MBO Plan is based equally on the achievement of RealNetw revenue and EBITDA targets and the revenue and EBITDA targets for the TPS and MSS divisions of RealNetworks. For Mr. Kimball, t under the 2009 MBO Plan is based equally on the achievement of RealNetworks consolidated revenue and EBITDA targets. For d, the target payout under the 2009 MBO Plan is based equally on the achievement of RealNetworks consolidated revenue and EBITD nue and EBITDA targets for the Music business of RealNetworks.

ng ranges for target performance and target payouts for executives participating in the 2009 MBO Plan, the Compensation Committee hat the broader economic conditions expected to be experienced during most, if not all, of 2009 would likely significantly impact RealN t and overall corporate performance. Given this expected challenging macroeconomic environment, the Compensation Committee desir ges for target performance and target payouts that would incentivize our executives to continue to work hard throughout 2009 to achiev , particularly since the Compensation Committee s philosophy is to establish stretch goals for target performance. Accordingly, the on Committee changed the ranges for target performance and target payouts under the 2009 MBO Plan to smooth out and increase the rget payouts over a broader range of target performance, to increase the minimum target payout if target performance is achieved and to ance threshold at which a target payout is made with respect to the maximum EBITDA-based payout.

ese changes, for Messrs. Giamatteo, Kimball and Lunsford, no portion of the target payout based on revenue goals will be earned if less evenue target is achieved. For achievement of 90%-100% of the revenue target, each of Messrs. Giamatteo, Kimball and Lunsford will of the portion of the target payout based on the level of achievement of the revenue target. For achievement of 100%-110% of the reven of Messrs. Giamatteo, Kimball and Lunsford will earn between 100% and 130% of the target payout based on the level of achievement et. For achievement of 110%-120% of the revenue target, each of Messrs. Giamatteo, Kimball and Lunsford will earn between 130% ar payout based on the level of achievement of the revenue target. Target payouts to each of Messrs. Giamatteo, Kimball and Lunsford ba of EBITDA targets will be earned linearly from 0-100%, with additional linear payouts up to a maximum of 200% for profitable units

19

tents

of 90% or greater. There is no performance threshold for the EBITDA-based target payout, except in rare instances where the EBITDA number.

Revenue		EBITDA	
tainment	Incentive Payout	Attainment	Incentive P
<90%	No payout	0 - 100%	0 - 100
% - 100%	70% - 100%	100% - 160%	100% - 16
0% - 110%	100% - 130%	>160% - 200%	160% - 20
0% - 120%	130% - 200%		

ding the performance and payout targets established under the 2009 MBO Plan, the Compensation Committee may in its discretion adju and payout targets if certain factors warrant variation from the formula established under the 2009 MBO Plan, and may also increase, d a participant s award before it is paid. Under the 2009 MBO Plan, a participant must be employed in a position that is eligible to partic BO Plan on the first and last day of a quarter to be eligible to earn incentive compensation under the 2009 MBO Plan for that quarter. In ecutive officers must be employed on the last day of each six-month period and on the date payments are made in order to be eligible to der the 2009 MBO Plan, except in the case of death, disability or termination of employment by RealNetworks other than for cause.

quity Incentive Compensation. In keeping with RealNetworks philosophy of providing a total compensation package that includes at- of pay, long-term incentives consisting of stock option grants and, in certain cases, restricted stock units, comprised a component of the n of the Named Executive Officers other than the Chief Executive Officer in 2008. These incentives are designed to motivate and rewar or maximizing shareholder value and encourage the long-term employment of key employees. When stock options and restricted stock u xecutive officers, the executives levels of responsibility, experience and breadth of knowledge, individual performance criteria, previo he compensation practices at similarly situated companies in RealNetworks industry are considered in evaluating total compensation. ards is generally intended to reflect an executive s position with and contributions to RealNetworks, and as a result, the number of shar tock options and restricted stock unit awards varies. The Compensation Committee based its determination of stock option awards for th cutive Officers other than the Chief Executive Officer on a combination of factors including individual performance, carried-interest equ nd competitive market factors. Options generally have a four year vesting period to encourage retention of key employees.

ck option grants to executive officers have been made with exercise prices equal to the fair market value of our Common Stock on the r officers are able to profit from their stock options only if the stock price appreciates from the value on the date the stock options were use of stock options and restricted stock units is intended to focus executives on the enhancement of shareholder value over the long-te quity ownership in RealNetworks and to retain key executive talent.

ions to purchase a total of 942,500 shares of common stock and 362,499 restricted stock units were granted to the Named Executive Off alNetworks, Inc. 2005 Stock Incentive Plan (the 2005 Plan). The amount and other details of the long-term equity compensation awa e Named Executive Officers in 2008 are set forth in the 2008 Grants of Plan-Based Awards table on page 28.

2008, the Compensation Committee granted stock option and/or restricted stock unit awards to certain executive officers including ers, Giamatteo and Kimball as part of the annual performance review process. Each executive officer was given a choice of receiving th f stock options, restricted stock units, or as a combination of stock options (50%) and restricted stock units (50%), which restricted stoc d based on a ratio of one restricted stock unit for every three stock options. The executive officers were offered this choice in order to p ty for diversification with respect to their long-term incentive compensation. The Compensation Committee approved the maximum gr that were offered to each executive officer. Mr. Eggers received an

333 restricted stock units, Mr. Giamatteo received an award of 33,333 restricted stock units and Mr. Kimball received awards of 22,500 ock units and stock options for the purchase of 67,500 shares of common stock. The stock options and restricted stock units granted to ers, Giamatteo and Kimball will vest in equal increments every six months over a four year period. The exercise price of the stock optio Ir. Kimball was equal to the closing price of RealNetworks common stock on the grant date.

3, Mr. Giamatteo was promoted to Chief Operating Officer and was awarded 208,333 restricted stock units and stock options for the pur res of common stock in connection with this promotion. The restricted stock units vest over a four year period with 16% vesting on June ditional 24% vesting on June 24, 2010, an additional 12% vesting on each of December 24, 2010 and June 24, 2011, and an additional 1 ach of December 24, 2011 and June 24, 2012. The stock options vest over a four year period with 20% vesting on each of December 24 2011, and 30% vesting on each of December 24, 2011 and June 24, 2012. The exercise price of the stock options granted to Mr. Giama the closing price of RealNetworks common stock on the grant date.

008, Mr. Lunsford joined RealNetworks and was awarded stock options for the purchase of 500,000 shares of common stock that will v connection with his offer of employment as Senior Strategic Advisor. The exercise price of the stock options granted to Mr. Lunsford closing price of RealNetworks common stock on the grant date. In June 2008, Mr. Lunsford was promoted to Executive Vice President, ntures and was awarded 40,000 restricted stock units in connection with this promotion. The restricted stock units vest over a four and a

009, Mr. Kimball was promoted to Executive Vice President, Corporate Development and Law, General Counsel and Corporate Secreta l stock options for the purchase of 130,000 shares of common stock in connection with this promotion. The stock options granted to will vest in equal increments every six months over a four year period. The exercise price of the stock options granted to Mr. Kimball closing price of RealNetworks common stock on the effective date of the grant.

ave any program, plan or obligation that requires the granting of stock options or other equity awards to any executive officer on specifi ock options are granted with exercise prices that are equal to the last sale price of our Common Stock as reported on the Nasdaq Stock M ctive date of grant. The Compensation Committee typically grants equity awards to corporate and executive officers at its scheduled me nous written consent. From time to time, the Compensation Committee may authorize the future grant of an equity award to a corporate ficer in advance of the commencement of such officer s employment by RealNetworks or when offering a corporate or executive office cting to receive an equity award in the form of stock options, restricted stock units, or a combination of stock options or restricted stock rizing the future grant of an equity award in connection with an offer of employment, the Compensation Committee s approval of the a d effective upon the employment of such officer by RealNetworks, and the exercise price of such stock option is equal to the last sale p stock as reported on the Nasdaq Stock Market on the respective date of grant, which would be the first day of our employment of such rizing the future grant of equity award(s) that contemplate the recipient electing to receive the award in the form of stock options, restric r a combination of both, the Compensation Committee will first approve the material terms of such award(s) and establish a future effe grant of the award(s) in order to allow the award recipients time to make irrevocable elections specifying the type of award they are elec his case, the exercise price of any stock options granted is equal to the last sale price of our common stock as reported on the Nasdaq St he effective date of the grant. Stock options are typically granted to RealNetworks employees upon hire and in connection with annual evaluations. Pursuant to the terms of the 2005 Plan, the Board of Directors has delegated authority to each of our Chief Executive Offi President and Chief Financial Officer and our Executive Vice President, Corporate Development and Law, General Counsel and Corpo grant awards under the Company s 2005 Plan to employees who are not directors or officers of RealNetworks. These authorized office prove stock option grants to designated employees who are not officers or Directors of

tents

ks on a weekly basis. Awards of restricted stock units for designated employees who are not officers or Directors of RealNetworks are t
the authorized officers on a quarterly basis.

y Cash Bonus Awards

. Eggers. Mr. Eggers participates in a separate discretionary cash bonus program designed to maintain appropriate independence key control executives. In 2008, discretionary cash bonus compensation for Mr. Eggers was targeted at 45% of annual base salary. scretionary cash bonus payments are determined and paid semi-annually and are based on performance during each six-month asurement period. The Compensation Committee has the discretion to award cash bonuses that are greater than or less than the ablished target amount. In the first half of 2008, Mr. Eggers earned discretionary cash bonus compensation that resulted in a payout 112.66% of the targeted payment based on his individual performance and contributions to the overall performance of alNetworks during the measurement period. In the second half of 2008, Mr. Eggers earned discretionary cash bonus compensation t resulted in a payout of 33% of the targeted payment based on his individual performance and contributions to the overall formance of RealNetworks during the measurement period. The Compensation Committee determined that Mr. Eggers contributed ually to the financial success of RealNetworks in the first and second halves of 2008, as compared to executives who participated in 2008 MBO Plan, and therefore should be comparably rewarded.

Eggers earned discretionary cash bonus compensation as follows:

Half 2008 Payout (argeted Payment)	First Half 2008 Payout ($)	Second Half 2008 Payout (% of Targeted Payment)	Second Hal Payout
112.66%	$70,081	33%	$21,64

. Kimball. In 2005, RealNetworks entered into agreements with Microsoft that resulted in payments of $761 million to alNetworks in connection with the settlement of antitrust litigation and agreements relating to digital music and games. The mpensation Committee awarded special cash bonuses to certain executive officers of RealNetworks, including Mr. Kimball, in ognition of their efforts and leadership in resolving the antitrust litigation and establishing a collaborative relationship with crosoft.

an agreement between RealNetworks and Mr. Kimball (the Kimball Agreement), Mr. Kimball was awarded a cash bonus in the aggre
3.25 million, of which $1 million was paid to Mr. Kimball in November 2005, $750,000 was paid to Mr. Kimball in two equal payment
each of May 2006 and November 2006, $750,000 was paid to Mr. Kimball in two equal payments of $375,000 in each of May 2007 an
007, and $750,000 was paid to Mr. Kimball in two equal payments of $375,000 in each of May 2008 and November 2008. If Mr. Kimb
erminated his employment with RealNetworks or was involuntarily terminated by RealNetworks for Cause (as defined in the Kimball
prior to November 2008, he would not have been eligible to receive cash payments under the Kimball Agreement that were due after th
be employed by RealNetworks. In the case of death or disability, Mr. Kimball or his heirs would have received all remaining payments
Agreement within 30 days.

. Lunsford. In connection with his acceptance of an offer of employment by RealNetworks as Senior Strategic Advisor in January 08, Mr. Lunsford received a discretionary signing bonus in the amount of $217,500, half of which was paid within 30 days of the mmencement of his employment with RealNetworks and half of which was paid six months later. In the event of Mr. Lunsford s ignation or termination for cause within the first six months of the date of either payment, he would have been required to repay a rata portion of the signing bonus. The Compensation Committee generally includes signing bonuses as part of the compensation ckages offered to new executives in order to further entice them to join RealNetworks and because it is a common practice among mpanies with which we compete for executive talent. Mr. Lunsford also received a relocation bonus in the amount of $40,000 in nnection with his relocation to Seattle, Washington from Atlanta, Georgia.

In connection with his promotion to Executive Vice President, Strategic Ventures in June 2008, and in order to help facilitate Mr. Luns Seattle, Washington, we agreed to provide protection against a loss on the sale of Mr. Lunsford s residence in Atlanta, Georgia up to a f $100,000. In calculating the amount of this reimbursement and the incremental cost to RealNetworks, each of RealNetworks and Mr. I eparate appraisal of the subject property, and the average of the two appraisals provided the basis on which the reimbursement was calcu ce between the sale price and the average of the two appraisals was equal to $65,500 and constituted the amount reimbursed to Mr. Lun his arrangement. Mr. Lunsford was also reimbursed for travel and lodging expenses in the amount of $1,100 in connection with his relo

nefits are part of a competitive compensation package to attract and retain employees, including executives. Our executive officers are e in all of our benefit programs. These programs include medical, dental, vision, group life and disability insurance, a medical reimburse portation subsidy and an employee stock purchase plan that permits employees to purchase RealNetworks stock at a 15% discount from price of our Common Stock as reported on the Nasdaq Stock Market on the last trading day of each offering period.

ees, including the Named Executive Officers, are also eligible to participate in our 401(k) savings plan, a tax-qualified retirement saving which all U.S. based employees are able to contribute the lesser of up to 50% of their cash compensation (including base salary, bonuses s and overtime pay) or the limit prescribed by the Internal Revenue Service to the plan on a before-tax basis. RealNetworks will match 5 of pay that is contributed to the 401(k) savings plan. All employee contributions to the 401(k) savings plan are fully vested upon contrib ntributions by RealNetworks become fully vested after three years.

ve officers participate in the benefit programs described above on the same basis as our other employees. We may offer other benefits to nd executive officers from time to time, including relocation packages and signing bonuses.

the imputed costs associated with the occupancy of vacant office space in our headquarters by the Glaser Progress Foundation, a charita f which Mr. Glaser is Trustee, and by Mr. Glaser s personal assistant, have been reported as income to Mr. Glaser. Other than relocatio ent paid to Mr. Lunsford, there were no special benefits or perquisites provided to any other Named Executive Officer in 2008.

nd Change in Control Benefits. It is our policy to request our executive officers, excluding Mr. Glaser, to provide a notice period of six ntarily terminating their employment with RealNetworks for the purpose of transitioning responsibilities. The Compensation Committe this is an important element of the executive compensation program, as it provides executive officers reasonable assurance of transitio support and it benefits RealNetworks by ensuring continuity during these transitions. In the event an executive officer provides six mo to voluntarily terminating his or her employment, he or she will receive a severance payment equal to six months of such executive s a even if RealNetworks does not require the continued services of the executive officer for all or part of such six month notice period. In cutive officer provides notice of less than six months prior to voluntarily terminating his or her employment, he or she will receive a sev al to the number of months notice provided, up to a maximum severance payment equal to six months of the executive s annual base Networks does not require the continued services of the executive officer for all or part of such notice period. These severance payment ny base salary earned during these periods and are paid following the last day worked by an executive officer.

. Kimball. In the event Mr. Kimball had resigned his position as a result of a material change in his job responsibilities, the ocation of his primary workplace by more than 15 miles, or the acquisition of RealNetworks by a third party, Mr. Kimball would ve been entitled to receive all payments under the Kimball Agreement on his last day of employment. In the case of death or ability, Mr. Kimball or his heirs would have received all remaining payments under the Kimball agreement within 30 days.

tents

. *Giamatteo.* In July 2008, the Compensation Committee approved amended severance provisions for Mr. Giamatteo as part of the ms of his employment as Chief Operating Officer. In the event RealNetworks terminates the employment of Mr. Giamatteo without use, RealNetworks will provide Mr. Giamatteo with twelve months notice, or it will pay Mr. Giamatteo his then-current base salary ieu of notice through any remaining portion of the notice period.

quity incentive plans, if we terminate the employment of a Named Executive Officer for any reason other than for cause, and any of suc cutive Officer s outstanding stock options or restricted stock units are not fully vested, the next vesting installment of such stock option ock units will vest on a pro rata basis for the portion of the year elapsed since the date on which the vesting of the option commenced or thereof, expressed in full months, provided that the Named Executive Officer executes and delivers a settlement agreement and release o us on or before the date of such termination. If the employment of a Named Executive Officer terminates due to such executive office ock options or restricted stock units that are unvested as of the date of such executive officer s death will fully vest on such date and m the estate or legal representative of such executive officer for a period of one year following such date. The Compensation Committee hat all employees who hold stock options or restricted stock awards under our equity incentive plans are eligible for these benefits.

our employees and executive officers may be eligible to receive certain benefits with respect to outstanding awards granted under our eq ans in the event of a change in control of RealNetworks. A change in control of a corporation is often accompanied by changes in the co ob losses due to redundancy, especially at the executive levels. If a change in control of RealNetworks were under consideration, we ex cutives could be faced with personal uncertainties and distractions about how the transaction may affect their continued employment wit awards under our equity incentive plans that include change in control benefits before any such transaction is contemplated, we hope to es full attention and dedication to our shareholders best interests in the event of a threatened or pending change in control, and to enc remain employed by RealNetworks through the completion of any such transaction. The change in control benefits with respect to outs ted under our equity incentive plans are further described in the section entitled Change in Control Arrangements on page 38.

ounting Implications

y of Executive Compensation. Section 162(m) of the Internal Revenue Code of 1986, as amended, generally limits the federal corporate n for compensation paid by a public company to its Chief Executive Officer and certain other executive officers to $1 million in the yea n becomes taxable to the executive, unless the compensation is performance-based compensation or qualifies under certain other exc nsation Committee seeks to balance its objective of ensuring an effective compensation package with the need to maximize the deductib mpensation, and intends to qualify executive compensation for deductibility under Section 162(m) to the extent consistent with the best RealNetworks. Since corporate objectives may not always be consistent with the requirements for full deductibility, it is conceivable tha to compensation arrangements in the future under which payments are not deductible under Section 162(m). Deductibility will not be th by the Compensation Committee in ascertaining appropriate levels or modes of compensation.

for Stock-Based Compensation. RealNetworks accounts for stock-based compensation in accordance with the requirements of Financia Standards Board Statement of Financial Accounting Standard No. 123 (revised 2004), *Share-Based Payment* (FAS 123R). Under the f this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as e uisite service period, which is the vesting period.

tents

rsification Plans

ks has authorized its executive officers to enter into pre-set diversification plans established according to Section 10b5-1 of the Securitie
ct of 1934, as amended, with an independent broker-dealer. These plans include specific instructions for the broker to exercise stock opt
tock on behalf of the executive on a pre-determined schedule. The purpose of such plans is to enable executive officers to recognize the
nsation and diversify their holdings of RealNetworks common stock during periods in which the officer would otherwise be unable to bu
ck because important information about RealNetworks had not been publicly released. As of April 20, 2009, two of the Named Executiv
such a plan.

ion Committee Report

nsation Committee has reviewed and discussed the Compensation Discussion and Analysis for fiscal year 2008 with RealNetworks
. Based on this review and discussion, the Compensation Committee recommended to our Board of Directors that the Compensation
nd Analysis be included in RealNetworks annual report on Form 10-K and proxy statement relating to the 2009 annual meeting of
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nsation Committee
of Directors

wani, Chairman
amou
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Summary Compensation Table

Principal	Year	Salary ($)(1)	Bonus ($)(2)	Stock Awards ($)(3)	Option Awards ($)(4)	Non-Equity Incentive Plan Compensation ($)(5)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)(8)	To(
er	2008	236,672			372,858	93,285		35,125	7
the Board	2007	444,384	725,000		545,488	354,200		34,146	2,1
xecutive	2006	400,000	2,175,000		821,456	325,000		35,747	3,7
ers	2008	288,884	91,725	115,495	272,493			3,657	7
President,	2007	259,055	94,982	40,278	266,747			2,502	6
cial Officer	2006	224,423	144,284(6)	5,738	158,273			2,858	5
er									
teo	2008	420,172		228,778	409,472	628,555		3,736	1,6

ting Officer	2007	372,865			362,393	667,600	24,855	6
	2006	350,000	500,000		666,581	235,725	326	1,7
ball	2008	327,038	750,000	172,774	283,485	116,937	3,684	1,6
ice President,	2007	296,433	835,725	163,687	293,763	18,225	61,766	1,6
evelopment	2006	225,625	857,089(7)	9,451	147,855		5,777	1,2
eneral Counsel and								
ecretary								
nsford	2008	336,602	257,500	31,713	268,951	106,527	66,838	1,0
ice President,	2007							
ntures	2006							

$329,956 earned by Mr. Glaser as performance-based cash incentive compensation in 2008, $236,671 was paid to Mr. Glaser in m of salary between January 1, 2008 and July 2008. After the Compensation Committee determined to set Mr. Glaser s annual for 2008 at $1, the amount paid to Mr. Glaser as salary in excess of $1 was applied to Mr. Glaser s performance-based cash ve nsation payout at the time it was determined by the Compensation Committee in March 2009. The remaining $93,285 of aser s 2008 performance-based cash incentive compensation was paid in March 2009. The amount shown for Mr. Lunsford for epresents annual base salary earned from the commencement of his employment on January 28, 2008 through December 31, The amount shown for Mr. Glaser for 2007 includes $44,384 earned in 2007 as a result of a merit increase in salary awarded in 007 and paid retroactively in February 2008. The amount shown for Mr. Kimball for 2006 represents his annual base salary as d to reflect a leave of absence in 2006.

nounts reported in this column represent discretionary cash bonus awards. These discretionary cash bonus awards are discussed er detail under Compensation Discussion and Analysis beginning on page 6.

nounts reported in this column represent the compensation costs for financial reporting purposes for the year under FAS 123R, ng adjustments relating to estimated forfeitures, rather than an amount paid to or realized by the executive officer for restricted nits granted in and prior to 2008. For a discussion of valuation assumptions, see *Note 2, Stock-Based Compensation,* to our o Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2008.

nounts reported in this column represent the compensation costs for financial reporting purposes for the year under FAS 123R, ng adjustments relating to estimated forfeitures, rather than an amount paid to or realized by the executive officer for stock granted in and prior to 2008. For a discussion of valuation assumptions, see *Note 2, Stock-Based Compensation,* to our o Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2008.

nounts reported in this column represent cash incentive compensation which is based on performance in fiscal 2006, 2007 and Mr. Glaser s cash incentive compensation for 2006 was determined by the Compensation Committee in March 2007 and was ortly thereafter, and for 2007, such compensation was determined by the Compensation Committee in April 2008 and paid thereafter. Of the $329,956 earned by Mr. Glaser as performance-based cash incentive compensation in 2008, $236,671 was Mr. Glaser in the form of salary between January 1, 2008 and July 2008. These payments were applied to Mr. Glaser s nance-based cash incentive compensation payout at the time it was determined by the Compensation Committee in March 2009. maining $93,285 of Mr. Glaser s 2008 performance-based cash incentive compensation was paid in March 2009. With respect to ned executive officers other than Mr. Glaser, cash incentive compensation was determined by the Compensation Committee uly 2006 with respect to payments for the first half of 2006, (b) in January 2007 with respect to payments for the second half of c) in August 2007 with respect to payments for the first half of 2007, (d) in February 2008 with respect to payments for the half of 2007, (e) in August 2008 with respect to payments for the first half of 2008, and (f) in March 2009 with respect to nts for the second half of 2008, with payments made shortly after each such determination. This performance-based cash nsation is discussed in further detail under Compensation Discussion and Analysis beginning on page 6. The estimated possible ld, target and maximum amounts for these awards are reflected in the 2008 Grants of Plan-Based Awards table on page 28.

es $94,284 that was reported as non-equity incentive plan compensation in the proxy statement filed in connection with the 2007 meeting of shareholders. This amount was awarded as part of a discretionary bonus program.

es $107,089 that was reported as non-equity incentive plan compensation in the proxy statement filed in connection with the nnual meeting of shareholders. This amount was awarded as part of a discretionary bonus program.

ts reported for 2006, 2007 and 2008 that represent All Other Compensation for each of the Named Executive Officers are ed in the following table:

tents

Detail of All Other Compensation in the Summary Compensation Table

	Year	Company Contribution 401(k) Plan ($)(1)	Term Life Insurance Premium ($)	Tax Gross-Up Payment Related to Stock Awards ($)	Taxable Relocation Costs ($)	Costs Associated With Personal Use of Office Space ($)(2)
er	2008		288			34,837
	2007		432			33,714
	2006		360			35,387
gers	2008	3,450	207			
	2007	2,223	279			
	2006	2,625	215			
tteo	2008	3,450	286			
	2007	6,365	402		18,088(3)	
	2006		326			
ball	2008	3,450	234			
	2007	5,610	320	55,836		
	2006	5,530	247			
nsford	2008		238		66,600(4)	
	2007					
	2006					

RealNetworks 401(k) plan, RealNetworks matches 50% of the first 3% of pay that is contributed to the plan. Matching utions by RealNetworks become fully vested after three years.

nount reported in this column represents costs associated with the occupancy of office space in RealNetworks headquarters by ser Progress Foundation, a charitable foundation of which Mr. Glaser is Trustee, and Mr. Glaser s personal assistant. The cost are foot of occupied space in RealNetworks headquarters was multiplied by the square footage of the office space occupied by ser Progress Foundation and Mr. Glaser s personal assistant to determine the costs associated with the occupancy of such office

nount reported represents relocation expenses paid by RealNetworks in connection with Mr. Giamatteo s relocation to Seattle, ngton, which expenses constitute taxable income to Mr. Giamatteo.

amount reported, $65,500 represents reimbursement to Mr. Lunsford for the loss realized on the sale of his residence in Atlanta, a in connection with his relocation to Seattle, Washington, pursuant to the terms of an employment offer letter between etworks and Mr. Lunsford. In calculating the amount of this reimbursement and the incremental cost to RealNetworks, each of etworks and Mr. Lunsford obtained a separate appraisal of the subject property, and the average of the two appraisals provided is on which the reimbursement was calculated. The difference between the sale price and the average of the two appraisals was o $65,500 and constituted the amount reimbursed to Mr. Lunsford pursuant to this arrangement. The remaining $1,100 reported Lunsford represents taxable travel and lodging expense reimbursements associated with his relocation. These amounts ute taxable income to Mr. Lunsford.

tents

2008 Grants of Plan-Based Awards

	Grant Date	Approval Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1) Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#/sh)	Target (#/sh)	Maximum (#/sh)	All Other Stock Awards: Number of Shares of Stock or Units (#)(2)	All Other Option Awards: Number of Securities Underlying Options (#)(3)	Exercise or Base Price of Option Awards ($/sh)	G Da Va Sto O A (
r			200,000	500,000	2,000,000							
rs	02/22/08	02/07/08							58,333			
eo	02/22/08	02/07/08	83,020	415,100	751,160				33,333			
	06/24/08	06/24/08	37,500	750,000	750,000				208,333			1,
	06/24/08	06/24/08								375,000	6.86	1,
ll	02/22/08	02/07/08	35,475	177,375	283,800				22,500			
	02/22/08	02/07/08								67,500	6.01	
ford	02/05/08	02/05/08	29,997	149,885	239,815					500,000	6.09	1,
	06/24/08	06/24/08							40,000			

nounts reported in this column represent the threshold, target and maximum amounts of annual performance-based cash ve compensation that might have been paid to each Named Executive Officer for 2008 performance. Threshold, target and um amounts for Mr. Eggers are not presented because Mr. Eggers participated in a discretionary cash bonus program in lieu of equity incentive plan in 2008. The actual amount paid for 2008 is shown in the Non-Equity Incentive Plan Compensation n of the Summary Compensation Table on page 25. These awards are described in further detail under Compensation Discussion alysis beginning on page 6.

nounts reported in this column represent restricted stock unit awards granted pursuant to the RealNetworks, Inc. 2005 Stock ve Plan. The restricted stock unit awards vest over a period of four years, with the exception of restricted stock units granted to nsford, which vest over a period of four and a half years. If a Named Executive Officer s employment terminates for any reason han death, upon a change of control, or upon the termination of employment by RealNetworks without cause (provided that the Executive Officer delivers a settlement agreement and release upon such termination), the unvested portion of the restricted nits will not vest and all rights to the unvested portion will terminate. The restricted stock units are described in further detail Compensation Discussion and Analysis beginning on page 6 and in the Outstanding Equity Awards at December 31, 2008 table e 29.

nounts reported in this column represent stock options granted pursuant to the RealNetworks, Inc. 2005 Stock Incentive Plan. ck options vest over a period of four years and expire seven years after the date of grant. The exercise price of the stock options l to the fair market value of RealNetworks Common Stock on the date of grant. If an executive officer terminates for any reason han death, upon a change of control, or upon the termination of employment by RealNetworks without cause (provided that the Executive Officer delivers a settlement agreement and release upon such termination), the unvested portion of the stock will not vest and all rights to the unvested portion will terminate. The stock options are described in further detail under pensation Discussion and Analysis beginning on page 6 and in the Outstanding Equity Awards at December 31, 2008 table on 9.

nounts reported in this column represent the compensation costs for financial reporting purposes under FAS 123R, excluding nents relating to estimated forfeitures, rather than an amount paid to or realized by the executive officer. For a discussion of on assumptions, see *Note 2, Stock-Based Compensation,* to our Notes to Consolidated Financial Statements included in our report on Form 10-K for the year ended December 31, 2008. The option exercise price has not been deducted from the amounts ed above. Regardless of the value placed on a stock option on the grant date, the actual value of the option will depend on the value of RealNetworks Common Stock at such date in the future when the option is exercised. The proceeds to be paid to the ual following the exercise of the option do not include the option exercise price.

tents

Outstanding Equity Awards at December 31, 2008

	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	I In A M E V Ur S C I Ve
er	375,000	125,000(1)		8.00	11/04/12				
	62,500	187,500(2)		7.69	04/06/14				
gers	5,000			3.76	08/05/22	7,083(3)	25,003(5)		
	25,000			6.12	07/24/23	51,041(4)	180,175(5)		
	27,000	3,000(6)		6.63	10/03/23				
	12,000	2,000(7)		5.75	02/11/24				
	32,000	8,000(8)		5.84	01/18/25				
	35,000			7.22	08/31/21				
	700			7.22	08/31/21				
	62,500	37,500(9)		8.53	02/14/13				
	21,252	21,248(10)		11.38	11/09/13				
	50,625	84,375(11)		7.69	04/06/14				
teo	525,000	225,000(12)		5.07	06/20/12	29,166(13)	102,956(5)		
	50,000			5.07	06/20/12	208,333(14)	735,415(5)		
	25,000	75,000(15)		6.49	09/18/14				
		375,000(16)		6.86	06/24/15				
ball	10,000			3.76	08/05/22	11,666(3)	41,181(5)		
	10,000			3.23	01/27/23	19,687(17)	69,495(5)		
	50,000			6.12	07/24/23				
	40,000	10,000(18)		5.84	01/18/25				

	61,450		5.94	10/12/21		
	200,000		7.22	08/31/21		
	15,000		7.22	08/31/21		
	40,000		7.22	08/31/21		
	50,000	30,000(19)	8.27	03/15/13		
	35,000	35,000(20)	11.38	11/09/13		
	50,625	84,375(11)	7.69	04/06/14		
	18,750	56,250(15)	6.49	09/18/14		
	59,062	8,438(21)	6.01	02/22/15		
nsford		500,000(22)	6.09	02/05/15	40,000(23)	141,200(5)

ptions vest and become exercisable as to 12.5% of the total grant on February 1, 2006 and upon the completion of each ssive six months of employment until the options become fully vested and exercisable on August 1, 2009, subject to the ent s continued employment with RealNetworks.

ptions vest and become exercisable in equal annual increments until they become fully vested on April 6, 2011, subject to the ent s continued employment with RealNetworks.

sents restricted stock units that vest in two substantially equal installments on each of November 9, 2009 and November 9, 2010, t to the recipient s continued employed with RealNetworks.

sents restricted stock units that vest in equal increments of 7,292 shares on February 22, 2009 and every six months thereafter he restricted stock units become fully vested on February 22, 2012, subject to the recipient s continued employment with etworks.

sents the closing price of a share of our common stock on December 31, 2008 ($3.53) multiplied by the number of shares or hat have not vested.

ptions vest and become exercisable as to 10% of the total grant on March 29, 2004 and upon the completion of each successive onths of employment, with vesting adjusted in connection with a leave of absence. The options will become fully vested and sable on January 14, 2009, subject to the recipient s continued employment with RealNetworks.

tents

ptions vest and become exercisable as to 10% of the total grant on August 11, 2004 and upon the completion of each successive onths of employment, with vesting adjusted in connection with a leave of absence. The options will become fully vested and sable on May 29, 2009, subject to the recipient s continued employment with RealNetworks.

ptions vest and become exercisable as to 10% of the total grant on February 1, 2005 and upon the completion of each successive onths of employment, with vesting adjusted in connection with a leave of absence. The options will become fully vested and sable on November 19, 2009, subject to the recipient s continued employment with RealNetworks.

ptions vest and become exercisable as to 12.5% of the total grant on August 14, 2006 and upon the completion of each ssive six months of employment until the options become fully vested and exercisable on February 14, 2010, subject to the ent s continued employment with RealNetworks.

ptions vest and become exercisable as to 12.5% of the total grant on May 9, 2007 and upon the completion of each successive six s of employment until the options become fully vested and exercisable on November 9, 2010, subject to the recipient s continued yment with RealNetworks.

ptions vest and become exercisable as to 12.5% of the total grant on October 6, 2007 and upon the completion of each successive onths of employment until the options become fully vested and exercisable on April 6, 2011, subject to the recipient s continued yment with RealNetworks.

ptions vest and become exercisable as to 30% of the total grant on December 20, 2006, and an additional 10% of the options will nd become exercisable upon the completion of each successive six months of employment until the options become fully vested ne 20, 2010, subject to the recipient s continued employed with RealNetworks.

sents restricted stock units that vest in substantially equal increments of 4,167 shares on February 22, 2009 and every six months fter until the restricted stock units become fully vested on February 22, 2012, subject to the recipient s continued employed with Networks.

sents restricted stock units that vest as to (i) 16% of the total grant on June 24, 2009, (ii) 24% of the total grant on June 24, 2010, 2% of the total grant on each of December 24, 2010 and June 24, 2011, and (iv) 18% of the total grant on each of December 24, and June 24, 2012, subject to the recipient s continued employed with RealNetworks.

ptions vest and become exercisable as to 12.5% of the total grant on March 18, 2008 and upon the completion of each successive onths of employment until the options become fully vested and exercisable on September 18, 2011, subject to the recipient s ued employment with RealNetworks.

ptions vest and become exercisable as to (i) 20% of the total grant on each of December 24, 2010 and June 24, 2011, and 0% of the total grant on each of December 24, 2011 and June 24, 2012, subject to the recipient s continued employment with Networks.

sents restricted stock units that vest in substantially equal increments of 2,813 shares on February 22, 2009 and every six months fter until the restricted stock units become fully vested on February 22, 2012, subject to the recipient s continued employed with Networks.

ptions vest and become exercisable as to 10% of the total grant on February 1, 2005 and upon the completion of each successive onths of employment, with vesting adjusted in connection with a leave of absence. The options will become fully vested and sable on September 16, 2009, subject to the recipient s continued employment with RealNetworks.

ptions vest and become exercisable as to 12.5% of the total grant on July 1, 2006 and upon the completion of each successive six
as of employment, with vesting adjusted in connection with a leave of absence. The options will become fully vested and
sable on February 16, 2010, subject to the recipient s continued employment with RealNetworks.

ptions vest and become exercisable as to 12.5% of the total grant on May 9, 2007 and upon the completion of each successive six
as of employment until the options become fully vested and exercisable on November 9, 2010, subject to the recipient s continued
oyment with RealNetworks.

tents

ptions vest and become exercisable as to 12.5% of the total grant on August 22, 2008 and upon the completion of each ssive six months of employment until the options become fully vested and exercisable on February 22, 2012, subject to the ent s continued employment with RealNetworks.

ptions vest and become exercisable as to (i) 25% of the total grant on January 28, 2009, and (ii) an additional 12.5% of the total upon the completion of each successive six months of employment until the options become fully vested and exercisable on ry 28, 2012, subject to the recipient s continued employment with RealNetworks.

sents restricted stock units that vest in eight equal increments of 5,000 shares on June 24, 2009 and every six months thereafter he restricted stock units become fully vested on December 24, 2012, subject to the recipient s continued employed with Networks.

2008 Option Exercises and Stock Vested

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)	Number of Shares Acquired on Vesting (#)	Value Re on Ves ($)(2
er				
gers			10,834	
teo			4,167	
ball	30,000	125,730	8,646	
nsford				

ents the price at which the shares acquired upon exercise of the stock options were sold net of the exercise price associated with ng the shares.

ents the number of shares vesting multiplied by the fair market value of RealNetworks Common Stock on the vesting date.

2008 Director Compensation Table

	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	T
hou(2)	64,000		145,513				2
er	40,000		145,513				1

er(3)	17,000	71,012	
er(4)			
n(5)	57,000	145,513	2
vani(6)	16,333	51,439	
ein(7)	36,500	145,513	1
na(8)	47,500	145,513	1

nount reported in this column for each director represents the compensation costs for financial reporting purposes for 2008 FAS 123R, excluding adjustments relating to estimated forfeitures, rather than an amount paid to or realized by the director, for ding stock options granted in and prior to 2008. The full FAS 123R grant date fair value of the equity award granted in 2008 to f Messrs. Benhamou, Bleier, Jaech and Klein and Ms. Raina is $130,734. The full FAS 123R grant date fair value of the equity granted in 2008 to Mr. Jotwani is $122,715. For a discussion of valuation assumptions, see *Note 2, Stock-Based nsation,* to our Notes to Consolidated Financial Statements

31

d in our annual report on Form 10-K for the year ended December 31, 2008. See 2008 Summary Compensation Table on
5 for compensation costs related to outstanding stock options granted to Mr. Glaser, our Chief Executive Officer, in and prior to

Committee Chair.

eyer served as a director from January 1, 2008 to June 3, 2008. Amount reported in the Fees Earned or Paid in Cash column
nts the value of shares of RealNetworks Common Stock issued to Mr. Breyer in lieu of director fees earned in fiscal year 2008.
eyer elected to receive 100% of his fiscal year 2008 director fees in shares of RealNetworks Common Stock. Mr. Breyer
d 1,396 shares valued at $8,000 as compensation for Board service in the first quarter of 2008 and 1,363 shares valued at
as compensation for Board service in the second quarter of 2008.

008 Summary Compensation Table on page 25 for Mr. Glaser s compensation for services provided as Chief Executive Officer.
aser does not receive additional compensation for his service as a member of the Board of Directors.

t reported in the Fees Earned or Paid in Cash column represents the value of shares of RealNetworks Common Stock issued to
ch in lieu of director fees earned in fiscal year 2008. Mr. Jaech elected to receive 100% of his fiscal year 2008 director fees in
of RealNetworks Common Stock. Mr. Jaech received (a) 2,530 shares valued at $14,500 as compensation for Board service in
t quarter of 2008, (b) 2,500 shares valued at $16,500 as compensation for Board service in the second quarter of 2008,
57 shares valued at $13,500 as compensation for Board service in the third quarter of 2008, and (d) 3,541 shares valued at
0 as compensation for Board service in the fourth quarter of 2008. Mr. Jaech served as the chairperson of the Compensation
ttee in 2008.

nsation Committee Chair. Mr. Jotwani has served as a director of RealNetworks since July 31, 2008.

t reported in the Fees Earned or Paid in Cash column represents the value of shares of RealNetworks Common Stock issued to
ein in lieu of director fees earned in fiscal year 2008. Mr. Klein elected receive 100% of his fiscal year 2008 director fees in
of RealNetworks Common Stock. Mr. Klein received (a) 1,701 shares valued at $9,750 as compensation for Board service in
t quarter of 2008, (b) 1,628 shares valued at $10,750 as compensation for Board service in the second quarter of 2008,
25 shares valued at $7,750 as compensation for Board service in the third quarter of 2008, and (d) 2,337 shares valued at $8,250
pensation for Board service in the fourth quarter of 2008.

ating and Corporate Governance Committee Chair.

ion of Directors

r who is not an employee of RealNetworks (an Outside Director) is paid $5,000 per quarter for his or her services as a director. Outs
e also paid (i) $1,000 for participation in each meeting of the Board, (ii) $1,000 for participation in each meeting of a Board committee,
per quarter for serving as chairperson of the Audit Committee, $1,500 per quarter for serving as chairperson of the Compensation Comm
r quarter for serving as chairperson of the Nominating and Corporate Governance Committee. In addition, the lead independent director
000 for participation in each meeting between such director and the Chief Executive Officer. Directors are also reimbursed for their reas
urred in attending Board of Directors or Committee meetings.

he RealNetworks, Inc. 2007 Director Compensation Stock Plan (the Director Plan), a sub-plan administered under the RealNetworks
ive Plan (the 2005 Plan), an Outside Director may make an irrevocable election prior to the commencement of each plan year to rece
e cash compensation payable to such Outside Director for the coming year in shares of RealNetworks common stock. The number of sh
Outside Director who has elected to receive all or a portion of his or her compensation in shares of RealNetworks common stock is dete
he total fees to be paid in shares of RealNetworks common stock during a fiscal quarter, as elected by an Outside Director, by the fair m
are of RealNetworks common stock on the last trading day of such fiscal quarter, with cash paid in lieu of the issuance of fractional sha

tents

ectors also receive stock options under the 2005 Plan. On the date an Outside Director is first appointed or elected to serve on the Board ranted nonqualified stock options to purchase 45,000 shares of RealNetworks common stock that will become fully vested on the first of the grant date. Each Outside Director will also be granted nonqualified stock options to purchase 45,000 shares of RealNetworks con business days following the date of each annual meeting of shareholders, provided that each such Outside Director has served on the Bo g twelve months. These options will become fully vested on the first anniversary of the grant date.

granted under the 2005 Plan has a maximum term of seven years and an exercise price equal to the fair market value of the shares subje e date of grant. If an optionee s service on the Board of Directors is terminated due to his or her death, his or her outstanding options w vest in full.

008, Messrs. Benhamou, Bleier, Jaech, Klein and Ms. Raina were each granted an option to purchase 45,000 shares of Common Stock price of $7.23 per share, and 100% of the shares subject to such options will vest on June 6, 2008. On July 31, 2008, Mr. Jotwani was gr purchase 45,000 shares of Common Stock having an exercise price of $6.87 per share, and 100% of the shares subject to such options v 2009.

2008 Potential Payments Upon Termination of Employment or Change-in-Control

ng table reflects the amount of compensation that would have been payable to each of the Named Executive Officers in the event of the of such executive s employment under certain circumstances, assuming that (1) the triggering event took place on December 31, 2008, of the 2008 fiscal year, and (2) the price per share of our common stock was $3.53, which was the closing market price on December 3

	Benefit	Before Change in Control Termination Without Cause or Good Reason	After Change in Control Termination Without Cause or Good Reason(1)	Voluntary Termination(2)	Death	Disability	Cha Con
er	Severance						
	Bonus(4)		329,956		329,956	329,956	32
	Equity award vesting acceleration						
gers	Severance			145,750			
	Bonus		21,644		21,644	21,644	2
	Equity award vesting acceleration	18,201	205,178		205,178		20
teo	Severance	435,000(5)		217,500			
	Bonus		245,964		245,964	245,964	24
	Equity award vesting acceleration	101,726	838,371		838,371		83
oall	Severance			165,000(6)			
	Bonus		36,524		36,524	36,524	3
	Equity award vesting acceleration	8,335	110,676		110,676		11

sford	Severance			185,000			
	Bonus		30,925		30,925	30,925	3
	Equity award vesting acceleration	15,687	141,200		141,200		14

es outstanding options and restricted stock units are substituted or assumed by a successor entity upon a change of control, and celeration of vesting occurs upon the termination of the employment of the Named Executive Officer. Also assumes that onary bonuses and cash incentive compensation earned under the 2008 MBO Plan are paid.

33

tents

es that the Named Executive Officer has provided a notice period of six months prior to voluntarily terminating his employment ealNetworks.

es outstanding options and restricted stock units are not substituted or assumed by a successor entity upon a change of control, t vesting of outstanding awards is fully accelerated upon a change of control. Also assumes that the Named Executive Officer is ved by the successor entity on the payment date with respect to performance-based cash incentive and discretionary cash bonus nsation earned in 2008 but not paid on or before December 31, 2008.

ents 100% of the performance-based cash incentive compensation earned by Mr. Glaser in 2008, of which $93,285 had not yet aid to Mr. Glaser as of December 31, 2008.

es payment of twelve months base salary in lieu of providing twelve months notice to Mr. Giamatteo prior to terminating his yment without cause.

t shown is based on an annual base salary of $330,000. In January 2009, the Compensation Committee increased Mr. Kimball s base salary to $370,000, effective October 1, 2008.

Payments

cy to request certain executive officers, excluding Mr. Glaser, to provide a notice period of six months prior to voluntarily terminating t with RealNetworks for the purpose of transitioning responsibilities. In the event an executive officer provides six months notice prior erminating his employment, he will receive a severance payment equal to six months of such executive s annual base salary, even if we ontinued services of the executive officer for all or part of such six month notice period. In the event an executive officer provides notic months prior to voluntarily terminating his employment, he will receive a severance payment equal to the number of months notice pr mum severance payment equal to six months of the executive s annual base salary, even if we do not require the continued services of ficer for all or part of such notice period. Severance payments are made following the last day worked by an executive officer. Severanc wn in the above table under the caption Voluntary Termination assume that each Named Executive Officer, excluding Mr. Glaser, ha notice prior to voluntarily terminating his employment on December 31, 2008.

, the Compensation Committee approved amended severance provisions for Mr. Giamatteo as part of the terms of his employment as C fficer. In the event we terminate the employment of Mr. Giamatteo without cause, we will provide Mr. Giamatteo with twelve months Mr. Giamatteo his then-current base salary in lieu of notice through any remaining portion of the notice period.

nents

yment of a Named Executive Officer had terminated on December 31, 2008 under any of the circumstances described in the above table ry termination or termination without cause or good reason before a change of control, such Named Executive Officer would have been e portion of the performance-based cash incentive or discretionary bonus compensation earned in 2008 but not paid as of December 31,

n of Vesting of Equity Awards

by RealNetworks Other than for Cause. If we terminate the employment of a Named Executive Officer for any reason other than for ca uch Named Executive Officer s outstanding stock options or restricted stock units are not fully vested, the next vesting installment of s stricted stock units will vest on a pro rata basis for the portion of the year elapsed since the date on which the vesting of the option com niversary thereof, expressed in full months, provided that the Named Executive Officer executes and delivers a settlement agreement a factory to us on or before the date of such termination.

tents

ecutive Officer. If the employment of a Named Executive Officer terminates due to such executive officer s death, any stock options or ock units that are unvested as of the date of such executive officer s death will fully vest on such date and may be exercised by the estat ve of such executive officer for a period of one year following such date, but not later than the expiration date of such stock options or re

Control. If stock options or restricted stock units granted to a Named Executive Officer under the RealNetworks, Inc. 2005 Stock Incent d, assumed, converted or substituted for on substantially the same terms and conditions immediately following a change in control and v fter such change in control the executive officer s employment is terminated by RealNetworks or its successor without cause or by the ood reason, all of the shares subject to the stock options or restricted stock units will be vested immediately, and such stock options may any time within 24 months following such termination, but not later than the expiration date of the stock options. In addition, if such sto stricted stock units are not continued, assumed, converted or substituted for immediately following the change in control, all of the shar e stock options or restricted stock units will vest immediately upon the change in control, and such stock options may be exercised at an onths thereafter.

stock options granted to a Named Executive Officer under the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated, an ks, Inc. 2000 Stock Option Plan, as amended (the Plans) will become exercisable in full in respect of the aggregate number of shares e event of a change of control of RealNetworks as further described in Item 12 of this report under the caption Change-in-Control ts. The administrator of the Plans may, in its discretion, determine that outstanding options issued under the Plans will not become exe rated basis in connection with a change of control if our Board of Directors or the surviving or acquiring corporation, as the case may be to provide for (a) the substitution of outstanding options granted under the Plans for equitable options in the surviving or acquiring corp mption of such options by the surviving or acquiring corporation, or (c) the cash payment to each holder of an option of such amount as r shall determine represents the then value of such options.

ion Committee Interlocks and Insider Participation

y 1, 2008 to June 3, 2008, our Compensation Committee was composed of Messrs. Benhamou and Jaech and James Breyer, who previo Class 2 director but did not stand for re-election at the 2008 annual meeting of shareholders. From June 4, 2008 to July 31, 2008, our on Committee was composed of Messrs. Benhamou and Jaech. From August 1, 2008 to December 31, 2008, our Compensation Commit f Messrs. Benhamou, Jaech and Jotwani. In 2008, no executive officer of RealNetworks served as a member of the board of directors or n committee of any entity that had one or more executive officers serving as a member of RealNetworks Board of Directors or Compe In addition, no interlocking relationship existed between any member of our Compensation Committee and any member of the compens f any other company.

Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

pensation Plans

nber 31, 2008, we had awards outstanding under five equity compensation plans. These plans include the RealNetworks, Inc. 1995 Stoc (the 1995 Plan), the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated (the 1996 Plan), the RealNetworks, Inc as amended and restated (the 2000 Plan), the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated (2005 Plan), a ks, Inc. 2002 Director Stock Option Plan (the 2002 Plan). In addition, the RealNetworks, Inc. 2007 Employee Stock Purchase Plan (t ame effective on January 1, 2008. The 1995 Plan, 1996 Plan, 2002 Plan, 2005 Plan and 2007 ESPP have been approved by our sharehol as not been approved by our shareholders.

35

tents

shareholders approved the 2005 Plan and upon this approval of the 2005 Plan, we terminated the 1995 Plan, the 1996 Plan, the 2000 Pl n. In 2007, our shareholders approved an amended and restated 2005 Plan, and upon this approval, we terminated the RealNetworks, In mpensation Stock Plan. As a result of the termination of these Plans, all new equity awards will be issued under the 2005 Plan. In 2007, also approved the RealNetworks, Inc. 2007 Employee Stock Purchase Plan. The initial offering period under the 2007 ESPP commenc 008.

g table aggregates the data from our plans:

ry	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (in 000 s)(a)		Weighted-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)
pensation plans approved by security holders	39,161	$	7.39	7,71
pensation plans not approved by security	374	$	9.90	
	39,535	$	7.41	7,71

uary 1, 2008, the 2007 ESPP became effective. Column (c) above excludes the 1,500,000 shares of the Company s common hat are authorized for issuance pursuant to the 2007 ESPP.

es shares available for future issuances pursuant to the Real Networks, Inc. 2007 Director Compensation Stock Plan (the Director Plan), a sub-plan that operates and is administered under the 2005 Plan. Under the 2007 Director Plan, outside directors ect to receive all or a portion of his or her quarterly director compensation in shares of the Company s common stock in lieu of hares issued to directors under the 2007 Director Plan are issued from the shares reserved under the 2005 Plan.

pensation Plans Not Approved By Security Holders. The Board of Directors adopted the 2000 Plan to enable the grant of nonqualified s mployees and consultants of RealNetworks and its subsidiaries who are not otherwise officers or directors of RealNetworks. The 2000 P proved by our shareholders. The Compensation Committee of the Board of Directors is the administrator of the 2000 Plan, and as such ll matters relating to options granted under the 2000 Plan. Nonqualified stock options granted pursuant to the 2000 Plan were granted w es equal to the fair market value of our common stock on the date of grant and typically vest over five years as determined by the on Committee or pursuant to delegated authority as provided in the 2000 Plan. In June 2005, the 2000 Plan was terminated and the rema ares were transferred to the 2005 Plan.

wnership of Certain Beneficial Owners and Management

g table sets forth, as of April 20, 2009, information regarding beneficial ownership of our common stock by (a) each person known to ks to be the beneficial owner of more than five percent of RealNetworks outstanding common stock, (b) each director, (c) our Chief E f Financial Officer and three other most highly compensated executive officers serving as executive officers at the end of fiscal year 20 executive officers and directors as a group. Percentage of beneficial ownership is based on 134,418,311 shares outstanding as of April ailing address for

36

tents

executive officer and director in the table below is c/o RealNetworks, Inc., 2601 Elliott Avenue, Suite 1000, Seattle, Washington 98121

neficial Owner	Number of Shares of Common Stock Beneficially Owned(1)	Percentag Common S Outstand
er(2)	51,909,662	
sociates, LLC(3)	8,581,915	
Fund Advisors LP(4)	8,693,508	
hamou(5)	277,920	
er(6)	405,000	
n(7)	220,205	
vani	0	
Klein(8)	307,204	
na(9)	317,343	
gers(10)	320,954	
teo(11)	618,630	
ball(12)	686,364	
sford(13)	125,000	
and executive officers as a group (14 persons)(14)	55,780,158	

an 1%.

icial ownership is determined in accordance with rules of the SEC and includes shares over which the beneficial owner exercises or investment power. Shares of our common stock subject to options currently exercisable or exercisable within 60 days of 20, 2009 are deemed outstanding for the purpose of computing the percentage ownership of the person holding the options, but t deemed outstanding for the purpose of computing the percentage ownership of any other person. Except as otherwise indicated, bject to community property laws where applicable, we believe, based on information provided by such persons, that the is named in the table above have sole voting and investment power with respect to all shares of our common stock shown as cially owned by them.

es 1,836,405 shares of common stock owned by the Glaser Progress Foundation, of which Mr. Glaser is trustee. Mr. Glaser ims beneficial ownership of these shares. Also includes 562,500 shares of common stock issuable upon exercise of options sable within 60 days of April 20, 2009.

nation is based on a Schedule 13G/A filed with the SEC on January 30, 2009 by Royce & Associates, LLC (Royce). Royce ed that as of December 31, 2008, it beneficially owned an aggregate of 8,581,915 shares of common stock and that its address is Avenue of the Americas, New York, New York 10019.

nation is based on a Schedule 13G filed with the SEC on February 9, 2009 by Dimensional Fund Advisors LP (Dimensional). nsional reported that as of December 31, 2008, it beneficially owned an aggregate of 8,693,508 shares of common stock and that dress is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746. Dimensional furnishes investment advice to nvestment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other ingled group trusts and separate accounts. While Dimensional possesses investment and/or voting power over these shares and ore may be deemed to be the beneficial owner of such shares, Dimensional disclaims beneficial ownership of these shares.

es 32,920 shares of common stock owned by the Eric and Illeana Benhamou Living Trust. Also includes 245,000 shares of on stock issuable upon exercise of options exercisable within 60 days of April 20, 2009.

tents

des 405,000 shares of common stock issuable upon exercise of options exercisable within 60 days of April 20, 2009.

des 215,000 shares of common stock issuable upon exercise of options exercisable within 60 days of April 20, 2009.

des 280,000 shares of common stock issuable upon exercise of options exercisable within 60 days of April 20, 2009.

des 315,000 shares of common stock issuable upon exercise of options exercisable within 60 days of April 20, 2009.

des 314,764 shares of common stock issuable upon exercise of options exercisable within 60 days of April 20, 2009.

des 612,500 shares of common stock issuable upon exercise of options exercisable within 60 days of April 20, 2009.

des 663,951 shares of common stock issuable upon exercise of options exercisable within 60 days of April 20, 2009.

des 125,000 shares of common stock issuable upon exercise of options exercisable within 60 days of April 20, 2009.

des an aggregate of 4,330,590 shares of common stock issuable upon exercise of options exercisable within 60 days of April 20,

Control Arrangements

ks 2005 Stock Incentive Plan. The Compensation Committee of the Board of Directors may determine at the time an award is granted u Incentive Plan (the 2005 Plan) that, upon a Change of Control of RealNetworks (as that term may be defined in the agreement evi options and stock appreciation rights outstanding as of the date of the Change of Control immediately vest and become fully exercisable and terminated without payment therefor if the fair market value of one share of our common stock as of the date of the Change of Con per share option exercise price or stock appreciation right grant price, (b) restrictions and deferral limitations on restricted stock awards icted stock becomes free of all restrictions and limitations and becomes fully vested, (c) performance awards shall be considered to be e (either in full or pro rata based on the portion of performance period completed as of the date of the Change of Control), and any deferr tion shall lapse and such performance awards shall be immediately settled or distributed, (d) the restrictions and deferral limitations and pplicable to any other stock unit awards or any other awards shall lapse, and such other stock unit awards or such other awards shall bec strictions, limitations or conditions and become fully vested and transferable to the full extent of the original grant, and (e) such other ac he Compensation Committee deems appropriate shall apply, subject in each case to any terms and conditions contained in the agreemen uch award.

s of the 2005 Plan, a Change of Control shall mean an event described in an agreement evidencing an award or such other event as de iscretion of our Board. The Compensation Committee may determine that, upon the occurrence of a Change of Control of RealNetwork tock appreciation right outstanding shall terminate within a specified number of days after notice to the participant, and/or that each par , with respect to each share of our common stock subject to such option or stock appreciation right, an amount equal to the excess of the e of such share immediately prior to the occurrence of such Change of Control over the exercise price per share of such option and/or sto right; such amount to be payable in cash, in one or more kinds of stock or property, or in a combination thereof, as the Committee, in it hall determine.

nt of a Change of Control the successor company assumes or substitutes for an option, stock appreciation right, share of restricted stock ward, then such outstanding option, stock appreciation right, share of restricted stock or other stock unit award shall not be accelerated a

tents

ption, stock appreciation right, share of restricted stock or other stock unit award shall be considered assumed or substituted for if follov
ontrol the award confers the right to purchase or receive, for each share subject to the option, stock appreciation right, restricted stock a
nit award immediately prior to the Change of Control, the consideration received in the transaction constituting a Change of Control by
each share held on the effective date of such transaction; provided, however, that if such consideration received in the transaction cons
Control is not solely common stock of the successor company, the Committee may, with the consent of the successor company, provid
ation to be received upon the exercise or vesting of an option, stock appreciation right, restricted stock award or other stock unit award,
t thereto, will be solely common stock of the successor company substantially equal in fair market value to the per share consideration r
f shares in the transaction constituting a Change of Control. Notwithstanding the foregoing, on such terms and conditions as may be set
nt evidencing an award, in the event of a termination of a participant s employment in such successor company within a specified time
ch Change of Control, each award held by such participant at the time of the Change of Control shall be accelerated as described above

ks 1996 Stock Option Plan, 2000 Stock Option Plan and 2002 Director Stock Option Plan. Under RealNetworks 1996 Stock Option P
n Plan and 2002 Director Stock Option Plan, as any of such plans have been amended and restated (the Plans), each outstanding optio
ans will become exercisable in full in respect of the aggregate number of shares covered thereby in the event of:

merger, consolidation or binding share exchange pursuant to which shares of our common stock are changed or converted into or
changed for cash, securities or other property, other than any such transaction in which the persons who hold our common stock
mediately prior to the transaction have immediately following the transaction the same proportionate ownership of the common
ck of, and the same voting power with respect to, the surviving corporation;

merger, consolidation or binding share exchange in which the persons who hold our common stock immediately prior to the
nsaction have immediately following the transaction less than a majority of the combined voting power of our outstanding capital
ck ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors;

liquidation or dissolution of RealNetworks;

sale, lease, exchange or other transfer not in the ordinary course of business (in one transaction or a series of related transactions)
all, or substantially all, of the assets of RealNetworks; or

transaction (or series of related transactions), consummated without the approval or recommendation of the Board of Directors, in
ich (i) any person, corporation or other entity (excluding RealNetworks and any employee benefit plan sponsored by
alNetworks) purchases any our common stock (or securities convertible into our common stock) for cash, securities or any other
sideration pursuant to a tender offer or exchange offer, or (ii) any person, corporation or other entity (excluding RealNetworks and
employee benefit plan sponsored by RealNetworks) becomes the direct or indirect beneficial owner of securities of RealNetworks
resenting fifty percent (50%) or more of the combined voting power of the then outstanding securities of RealNetworks ordinarily
d apart from rights accruing under special circumstances) having the right to vote in the election of directors.

herwise provided in an agreement evidencing an award under the Plans, the administrator of the Plans may, in its discretion, determine
options issued under the Plans will not become exercisable on an accelerated basis in connection with any of the transactions described
Directors or the surviving or acquiring corporation, as the case may be, has taken action to provide for (a) the substitution of outstandi
ted under the Plans for equitable options in the surviving or acquiring corporation, (b) the assumption of such options by the surviving
rporation, or (c) the cash payment to each holder of an option of such amount as the plan administrator shall determine represents the th
n options.

tents

Certain Relationships and Related Transactions, and Director Independence

Procedures With Respect to Related Person Transactions

cy not to enter into any related person transaction unless the Audit Committee of the Board of Directors reviews and approves such tran e with guidelines set forth in the RealNetworks, Inc. Policy Regarding Related Party Transactions, or the transaction is approved by a m erested directors. In reviewing and approving any related person transaction, the Audit Committee will satisfy itself that it has been full to the related person s relationship and interest including all material facts of the proposed transaction, and determine that the transacti orks.

erson transactions of which our management is aware will be disclosed to the Audit Committee. At least annually, management will eli from our executive officers and directors as to existing and potential related person transactions, and will seek to obtain such informatio ders who do not file reports with the SEC on Schedule 13G. An executive officer or director will promptly inform the Chairman of the when the officer or director becomes aware of a potential related person transaction in which the officer or director would be a related p

ationships and Related Transactions

ng agreement (the Voting Agreement) entered into in September 1997 among RealNetworks, Accel IV, L.P. (Accel IV), Mitchell d Robert Glaser, each of Accel IV and Messrs. Jacobsen and Kapor have agreed to vote all shares of stock of RealNetworks owned by t aser to our Board of Directors in each election in which he is a nominee. The obligations under the Voting Agreement terminate with re ferred by the parties when such shares are transferred. The Voting Agreement terminates on the death of Mr. Glaser.

he terms of an agreement entered into in September 1997 between RealNetworks and Mr. Glaser, RealNetworks has agreed to use its b minate, elect and not remove Mr. Glaser from the Board of Directors so long as Mr. Glaser owns a specified number of shares of our co

dependence

f Directors has determined that all of our directors, other than Mr. Glaser, are independent under the Nasdaq listing standards and the ap gated by the SEC. Applying these same rules, our Board has determined that all members of the Audit Committee, the Compensation nd the Nominating and Corporate Governance Committee are independent.

Principal Accountant Fees and Services

Fees and Services

ng table presents fees for professional audit services rendered by KPMG LLP, an independent registered public accounting firm, for the nancial statements for 2007 and 2008, and fees billed for other services rendered by KPMG LLP.

	2007	20
)	$ 2,300,682	$ 3,2
ed Fees	0	
	0	
es	0	
	$ 2,300,682	$ 3,2

connection with the audit of RealNetworks annual financial statements for the fiscal years ended December 31, 2007 and 2008, s of the financial statements included in RealNetworks quarterly reports on Form 10-Q during the 2007 and 2008 fiscal years, es-Oxley Section 404 attestation services and statutory audits for subsidiaries of RealNetworks.

40

tents

al Policies and Procedures

ommittee approves in advance all audit and non-audit services to be performed by our independent auditors. As part of its pre-approval the Audit Committee considers whether the provision of any proposed non-audit services is consistent with the SEC s rules on auditor e. In accordance with its pre-approval procedures, the Audit Committee has pre-approved certain specified audit and non-audit services KPMG LLP for up to twelve (12) months from the date of the pre-approval. If there are any additional services to be provided, a reques must be submitted by management to the Audit Committee for its consideration. In 2007 and 2008, the Audit Committee approved all identified in the above table in accordance with SEC requirements.

PART IV.

Exhibits and Financial Statement Schedules

to Consolidated Financial Statements

dated financial statements of RealNetworks, Inc. and subsidiaries previously filed with RealNetworks Annual Report on Form 10-K fo nber 31, 2008.

cial Statements Schedules

statement schedules have been omitted since they are either not required, not applicable, or because the information required is include financial statements or the notes thereto.

tents

to Exhibits

Description

Agreement and Plan of Merger and Reorganization by and among RealNetworks, Inc., Symphony Acquisition Corp. I, Symphon
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
Form 10-Q for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission on August 14, 2003
Combination Agreement by and among RealNetworks, Inc., RN International Holdings B.V. and WiderThan Co., Ltd. dated as o
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)
Amended and Restated Articles of Incorporation (incorporated by reference from Exhibit 3.1 to RealNetworks Quarterly Repor
Form 10-Q for the quarterly period ended June 30, 2000 filed with the Securities and Exchange Commission on August 11, 2000
Amended and Restated Bylaws adopted April 24, 2007 (incorporated by reference from Exhibit 3.1 to RealNetworks Current R
on Form 8-K filed with the Securities and Exchange Commission on April 27, 2007)
Amended and Restated Shareholder Rights Plan dated as of December 2, 2008, by and between RealNetworks, Inc. and Mellon
Investor Services LLC including the form of Certificate of Designation, the form of Rights Certificate and the Summary of Right
attached thereto as Exhibits A, B and C, respectively (incorporated by reference from Exhibit 4.1 to RealNetworks Form 8-K fi
with the Securities and Exchange Commission on December 3, 2008)
Registration Rights Agreement dated as of June 17, 2003, between RealNetworks, Inc. and Goldman, Sachs & Co. (incorporated
reference from Exhibit 4.3 to RealNetworks Registration Statement on Form S-3 filed with the Securities and Exchange Comm
on September 12, 2003)
RealNetworks, Inc. 1995 Stock Option Plan (incorporated by reference from Exhibit 99.1 to RealNetworks Registration Statem
Form S-8 filed with the Securities and Exchange Commission on September 14, 1998)
RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 1
RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 filed with the Securities and Excha
Commission on August 13, 2001)
RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 1
RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 filed with the Securities and Excha
Commission on August 13, 2001)
RealNetworks, Inc. 2002 Director Stock Option Plan (incorporated by reference from Exhibit 10.2 to RealNetworks Quarterly
on Form 10-Q for the quarterly period ended June 30, 2002 filed with the Securities and Exchange Commission on July 25, 2002
Form of Stock Option Agreement under the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated (incorporated
reference from Exhibit 10.1 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended September 30, 200
with the Securities and Exchange Commission on November 14, 2002)
Form of Stock Option Agreement under the RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated (incorporated
reference from Exhibit 10.2 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended September 30, 200
with the Securities and Exchange Commission on November 14, 2002)
Forms of Stock Option Agreement under the RealNetworks, Inc. 2002 Director Stock Option Plan (incorporated by reference fro
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)
RealNetworks, Inc. 2007 Employee Stock Purchase Plan (incorporated by reference from Exhibit 10.2 to RealNetworks Quarte
Report on Form 10-Q for the quarterly period ended June 30, 2007 filed with the Securities and Exchange Commission on Augus
2007)

tents

Description

RealNetworks, Inc. 2007 Director Compensation Stock Plan (incorporated by reference from Exhibit 10.9 to RealNetworks An Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission on February 29 2008)

RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated effective June 25, 2007 (incorporated by reference from Exhibit 10.1 to RealNetworks Current Report on Form 8-K filed with the Securities and Exchange Commission on June 29, 20

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43

tents

	Description
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	Offer Letter dated June 24, 2008 between RealNetworks, Inc. and Michael Lunsford
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*	Consent of KPMG LLP
*	Power of Attorney (included on signature page).
	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
	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
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*	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

ve Compensation Plan or Agreement

s of this exhibit are omitted and were filed separately with the Securities and Exchange Commission pursuant to the Company s tion requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

sly filed with RealNetworks Annual Report on Form 10-K for the year ended December 31, 2008.

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SIGNATURES

he requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed
e undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on April 30, 2009.

VORKS, INC.

By: /s/ ROBERT GLASER
er
tive Officer

he requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the
nd in the capacities indicated below on April 30, 2009.

Signature	Title
/s/ ROBERT GLASER 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)
/s/ ERIC A. BENHAMOU Eric A. Benhamou	Director
* Edward Bleier	Director
/s/ JEREMY JAECH Jeremy Jaech	Director
/s/ PRADEEP JOTWANI Pradeep Jotwani	Director
/s/ JONATHAN D. KLEIN Jonathan D. Klein	Director
/s/ KALPANA RAINA	Director

Kalpana Raina

by Michael Eggers, attorney-in-fact.

45

tents

Exhibit Index

Description

Agreement and Plan of Merger and Reorganization by and among RealNetworks, Inc., Symphony Acquisition Corp. I, Symphon 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 Form 10-Q for the quarterly period ended June 30, 2003 filed with the Securities and Exchange Commission on August 14, 2003
Combination Agreement by and among RealNetworks, Inc., RN International Holdings B.V. and WiderThan Co., Ltd. dated as o 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)
Amended and Restated Articles of Incorporation (incorporated by reference from Exhibit 3.1 to RealNetworks Quarterly Repor Form 10-Q for the quarterly period ended June 30, 2000 filed with the Securities and Exchange Commission on August 11, 2000
Amended and Restated Bylaws adopted April 24, 2007 (incorporated by reference from Exhibit 3.1 to RealNetworks Current R on Form 8-K filed with the Securities and Exchange Commission on April 27, 2007)
Amended and Restated Shareholder Rights Plan dated as of December 2, 2008, by and between RealNetworks, Inc. and Mellon Investor Services LLC including the form of Certificate of Designation, the form of Rights Certificate and the Summary of Right attached thereto as Exhibits A, B and C, respectively (incorporated by reference from Exhibit 4.1 to RealNetworks Form 8-K fi with the Securities and Exchange Commission on December 3, 2008)
Registration Rights Agreement dated as of June 17, 2003, between RealNetworks, Inc. and Goldman, Sachs & Co. (incorporated reference from Exhibit 4.3 to RealNetworks Registration Statement on Form S-3 filed with the Securities and Exchange Comm on September 12, 2003)
RealNetworks, Inc. 1995 Stock Option Plan (incorporated by reference from Exhibit 99.1 to RealNetworks Registration Statem Form S-8 filed with the Securities and Exchange Commission on September 14, 1998)
RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10 RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 filed with the Securities and Excha Commission on August 13, 2001)
RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated on June 1, 2001 (incorporated by reference from Exhibit 10 RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 filed with the Securities and Excha Commission on August 13, 2001)
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Form of Stock Option Agreement under the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated (incorporated reference from Exhibit 10.1 to RealNetworks Quarterly Report on Form 10-Q for the quarterly period ended September 30, 200 with the Securities and Exchange Commission on November 14, 2002)
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46

tents

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48