

REALNETWORKS INC
Form 10-Q
August 09, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2010

OR

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

For the transition period from _____ to _____

Commission file number 0-23137

RealNetworks, Inc.

(Exact name of registrant as specified in its charter)

Washington

(State of incorporation)

91-1628146

(I.R.S. Employer Identification Number)

2601 Elliott Avenue, Suite 1000

Seattle, Washington

(Address of principal executive offices)

98121

(Zip Code)

(206) 674-2700

(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of the registrant's Common Stock outstanding as of July 30, 2010 was 135,592,883.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	June 30,	December
	2010	31,
		2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 156,155	\$ 277,030
Short-term investments	157,065	107,870
Trade accounts receivable, net of allowances for doubtful accounts and sales returns	43,805	60,937
Deferred costs, current portion	4,541	5,192
Prepaid expenses and other current assets	30,001	30,624
Total current assets	391,567	481,653
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	142,978	151,951
Leasehold improvements	25,308	31,041
Total equipment, software, and leasehold improvements, at cost	168,286	182,992
Less accumulated depreciation and amortization	121,616	125,878
Net equipment, software, and leasehold improvements	46,670	57,114
Restricted cash equivalents and investments	10,000	13,700
Equity method investments	24,223	50
Available for sale securities	17,587	19,503
Other assets	3,746	4,030
Deferred costs, non-current portion	13,516	10,182
Deferred tax assets, net, non-current portion	8,822	10,001
Other intangible assets, net	7,804	10,650
Total assets	\$ 523,935	\$ 606,883
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 27,662	\$ 32,703
Accrued and other liabilities	88,521	124,934
Deferred revenue, current portion	20,740	31,374
Related party payable Rhapsody	459	
Related party payable MTVN		11,216
Accrued loss on excess office facilities, current portion	762	3,228
Total current liabilities	138,144	203,455
Deferred revenue, non-current portion	879	1,933

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Accrued loss on excess office facilities, non-current portion	4,047	
Deferred rent	3,768	4,464
Deferred tax liabilities, net, non-current portion	719	961
Other long-term liabilities	12,293	13,006
Total liabilities	159,850	223,819
Noncontrolling interest in Rhapsody		7,253
Shareholders' equity:		
Preferred stock, \$0.001 par value, no shares issued and outstanding:		
Series A: authorized 200 shares		
Undesignated series: authorized 59,800 shares		
Common stock, \$0.001 par value authorized 1,000,000 shares; issued and outstanding 135,587 shares in 2010 and 135,057 shares in 2009	136	135
Additional paid-in capital	690,521	671,606
Accumulated other comprehensive loss	(46,577)	(38,614)
Retained deficit	(279,995)	(257,316)
Total shareholders' equity	364,085	375,811
Total liabilities and shareholders' equity	\$ 523,935	\$ 606,883

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net revenue (A)	\$ 88,884	\$ 135,725	\$ 217,484	\$ 276,498
Cost of revenue (B)	29,149	55,614	78,308	111,635
Gross profit	59,735	80,111	139,176	164,863
Operating expenses:				
Research and development	27,583	28,923	62,258	57,482
Sales and marketing	27,382	42,273	65,209	85,958
Advertising with related party		6,865	1,065	14,288
General and administrative	14,590	19,338	29,511	42,169
Impairment of goodwill		175,583		175,583
Restructuring and other charges	4,792		10,407	794
Loss on excess office facilities	7,082		7,082	
Total operating expenses	81,429	272,982	175,532	376,274
Operating loss	(21,694)	(192,871)	(36,356)	(211,411)
Other income (expenses):				
Interest income, net	551	754	931	1,937
Equity in net loss of Rhapsody and other investments	(5,427)	(269)	(5,427)	(924)
Gain (loss) on sale of equity investments, net	(50)	68	(50)	205
Gain on deconsolidation of Rhapsody			10,929	
Other income (expense), net	994	(449)	1,093	406
Total other income (expenses), net	(3,932)	104	7,476	1,624
Loss before income taxes	(25,626)	(192,767)	(28,880)	(209,787)
Income taxes benefit (expense)	(281)	(1,210)	3,291	(2,759)
Net loss	(25,907)	(193,977)	(25,589)	(212,546)
Net loss attributable to noncontrolling interest in Rhapsody		5,648	2,910	12,081
Net loss attributable to common shareholders	\$ (25,907)	\$ (188,329)	\$ (22,679)	\$ (200,465)
Basic net income (loss) per share available to common shareholders	\$ (0.19)	\$ (1.40)	\$ (0.14)	\$ (1.51)
Diluted net income (loss) per share available to common shareholders	\$ (0.19)	\$ (1.40)	\$ (0.14)	\$ (1.51)

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Shares used to compute basic net income (loss) per share available to common shareholders	135,277	134,420	135,209	134,394
Shares used to compute diluted net income (loss) per share available to common shareholders	135,277	134,420	135,209	134,394
Comprehensive loss:				
Net loss	\$ (25,907)	\$ (193,977)	\$ (25,589)	\$ (212,546)
Unrealized holding (gains) losses on short-term and equity investments, net of income taxes	(3,160)	5,760	(1,609)	3,938
Foreign currency translation gains (losses)	(4,743)	9,207	(6,354)	1,218
Comprehensive loss	(33,810)	(179,010)	(33,552)	(207,390)
Net loss attributable to noncontrolling interest		5,648	2,910	12,081
Comprehensive loss attributable to common shareholders	\$ (33,810)	\$ (173,362)	\$ (30,642)	\$ (195,309)
(A) Components of net revenue:				
License fees	\$ 16,644	\$ 24,389	\$ 40,816	\$ 50,568
Service revenue	72,240	111,336	176,668	225,930
	\$ 88,884	\$ 135,725	\$ 217,484	\$ 276,498
(B) Components of cost of revenue:				
License fees	\$ 5,668	\$ 9,869	\$ 13,217	\$ 19,115
Service revenue	23,481	45,745	65,091	92,520
	\$ 29,149	\$ 55,614	\$ 78,308	\$ 111,635

See accompanying notes to unaudited condensed consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended	
	June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ (25,589)	\$ (212,546)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	13,973	15,522
Stock-based compensation	6,692	10,818
Gain on disposal of equipment, software, and leasehold improvements	(3)	(34)
Equity in net loss of Rhapsody and other investments	5,427	924
Loss (gain) on sale of equity investments, net	50	(205)
Impairment of goodwill		175,583
Excess tax benefit from stock option exercises	(18)	(9)
Gain on deconsolidation of Rhapsody	(10,929)	
Accrued loss on excess office facilities	6,470	
Deferred income taxes	(1,609)	(682)
Accrued restructuring and other charges	3,581	(3,675)
Other	22	24
Net change in certain operating assets and liabilities, net of acquisitions and disposals:		
Trade accounts receivable	7,649	5,716
Prepaid expenses and other assets	(7,336)	(2,268)
Accounts payable	(2,417)	(2,043)
Accrued and other liabilities	(52,300)	(5,366)
Net cash used in operating activities	(56,337)	(18,241)
Cash flows from investing activities:		
Purchases of equipment, software, and leasehold improvements	(9,507)	(7,608)
Purchases of short-term investments	(65,754)	(66,192)
Proceeds from sales and maturities of short-term investments	16,559	38,692
Decrease in restricted cash equivalents and investments, net	3,700	141
Payment of acquisition costs, net of cash acquired		(3,154)
Purchase of equity investments		(2,000)
Payment in connection with the restructuring of Rhapsody	(18,000)	
Repayment of temporary funding upon deconsolidation of Rhapsody	5,869	
Proceeds from sales of equity investments		205
Net cash used in investing activities	(67,133)	(39,916)
Cash flows from financing activities:		
Net proceeds from sale of common stock under employee stock purchase plan and exercise of stock options	1,272	819
Excess tax benefit from stock option exercises	18	9
Payments received on MTVN note	1,213	14,537

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Capital contribution to Rhapsody from MTVN		5,000
Net cash provided by financing activities	2,503	20,365
Effect of exchange rate changes on cash and cash equivalents	92	2,316
Net decrease in cash and cash equivalents	(120,875)	(35,476)
Cash and cash equivalents, beginning of period	277,030	232,968
Cash and cash equivalents, end of period	\$ 156,155	\$ 197,492

Supplemental disclosure of cash flow information:

Cash received from income tax refunds	\$ 131	\$ 5,942
Cash paid for income taxes	\$ 1,818	\$ 3,336

See accompanying notes to unaudited condensed consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Quarters and Six Months Ended June 30, 2010 and 2009

Note 1. Summary of Significant Accounting Policies

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

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

Basis of Presentation. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to 2009 amounts to conform to the current presentation.

On August 20, 2007, RealNetworks and MTV Networks, a division of Viacom International Inc. (MTVN), created Rhapsody America LLC (Rhapsody) to jointly own and operate a business-to-consumer digital audio music service. RealNetworks held a 51% equity interest in Rhapsody and Rhapsody's financial position and operating results has been consolidated into RealNetworks' financial statements prior to March 31, 2010. MTVN's proportionate share of income (loss) was included in noncontrolling interest in Rhapsody in the unaudited condensed consolidated statements of operations and comprehensive income (loss). MTVN's proportionate share of equity was included in noncontrolling interest in Rhapsody in the unaudited condensed consolidated balance sheets. On March 31, 2010, the Company and MTVN restructured Rhapsody, and RealNetworks held slightly less than 47.5% of the outstanding shares of capital stock of Rhapsody after the restructuring and as of June 30, 2010. Since March 31, 2010, RealNetworks has not held a controlling interest in Rhapsody and therefore, the Company has treated its ownership interest in Rhapsody as an equity method investment. Rhapsody's financial position as of March 31, 2010 and its operating results beginning April 1, 2010 are no longer consolidated with RealNetworks' consolidated financial statements.

The unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal, recurring adjustments that, in the opinion of the Company's management, are necessary for a fair presentation of the results of operations for the periods presented. Operating results for the quarter and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for any subsequent quarter or for the year ending December 31, 2010. Certain information and disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC).

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Revenue Recognition. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Physical products are considered delivered to the customer once they have been shipped and title and risk of loss have been transferred. For online sales, the products or services are considered delivered at the time the products or services are made available, digitally, to the end user.

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

In the Company's direct to consumer business segments, which include Games, Media Software and Services (MSS), and prior to April 1, 2010, included Music, the Company derives revenue through (1) subscriptions, (2) sales of content downloads, software and licenses and (3) the sale of advertising and the distribution of third-party products on its websites and in the Company's games.

Beginning in the quarter ended June 30, 2010, revenue from the Company's Rhapsody joint venture is no longer consolidated within its financial statements and the Company is no longer recording any operating or other financial results for the former Music segment.

Consumer subscription products are paid in advance, typically for monthly, quarterly or annual duration. Subscription revenue is recognized ratably over the related subscription time period. Revenue from sales of content downloads, software and licenses is recognized at the time the product is made available, digitally, to the end user. Revenue generated from advertising on the Company's websites and from advertising and the distribution of third-party products included in the Company's products is recognized as revenue at the time of delivery.

The Company's business-to-business Technology Products and Solutions (TPS) segment generates revenue by providing services that enable wireless carriers to deliver audio and video content to their customers and through sales of software licenses and products and related support and other services.

Revenue generated from services provided to wireless carriers that enable the delivery of audio and video content to their customers is recognized as the services are provided. Setup fees to build these services are recognized ratably upon launch of the service over the remaining expected term of the service.

Accounting for Gains on Sale of Subsidiary Stock. Effective January 1, 2009, the Company adopted Statement of Financial Accounting Standards No. 160, *Non-controlling Interests in Consolidated Financial Statements, an amendment to ARB No. 51* (SFAS 160) which was primarily codified into FASB ASC 810 *Consolidation* (ASC 810). Current guidance requires that the difference between the carrying amount of the parent's investment in a subsidiary and the underlying net book value to be recorded as an equity transaction. The Company elected to recognize any such gain in its consolidated statement of operations prior to January 1, 2009.

Noncontrolling Interests. The Company records noncontrolling interest expense (benefit) which reflects the portion of the earnings (losses) of majority-owned entities which are applicable to the noncontrolling interest partners in the consolidated statement of operations. Redeemable noncontrolling interests that are redeemable at either fair value or are based on a formula that is intended to approximate fair value follow the Company's historical disclosure only policy for the redemption feature. Redeemable noncontrolling interests that are redeemable at either a fixed price or are based on a formula that is not akin to fair value are reflected as an adjustment to income attributable to common shareholders based on the difference between accretion as calculated using the terms of the redemption feature and the accretion entry for a hypothetical fair value redemption feature with the remaining amount of accretion to redemption value recorded directly to equity. Noncontrolling interest expense (benefit) is included within the consolidated statements of operations and comprehensive income (loss). The Company applied this accounting policy to the noncontrolling interest in Rhapsody that was held by MTVN for periods beginning when Rhapsody was formed in August 2007 through the quarter ended March 31, 2010. Due to the completion of the restructuring of Rhapsody on March 31, 2010, which resulted in the Company holding approximately 47.5% of the outstanding shares of capital stock of Rhapsody, this accounting policy will no longer apply with respect to the Company's investment as the Company no longer consolidates Rhapsody and no longer reports a noncontrolling interest.

Note 2. Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2010, to be implemented by the Company in future periods as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, that are of significance, or potential significance to the Company.

In September 2009, the FASB ratified Accounting Standards Update (ASU) 2009-13 (ASU 2009-13) (previously Emerging Issues Task Force (EITF) Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables* (EITF 08-1)). ASU 2009-13 supersedes EITF 00-21 and addresses criteria for separating the consideration in multiple-element arrangements. ASU 2009-13 will require companies to allocate the overall consideration to each deliverable by using a best estimate of the selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third-party evidence of the selling price. ASU 2009-13 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 and early adoption is permitted. The Company is currently evaluating the potential impact, if any, of the adoption of ASU 2009-13 on its consolidated results of operations and financial condition and whether it will adopt the standard early.

In September 2009, the FASB ratified ASU 2009-14 (ASU 2009-14) (previously EITF No. 09-3, *Certain Revenue Arrangements That Include Software Elements*). ASU 2009-14 modifies the scope of Software Revenue Recognition to exclude (a) non-software

components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. ASU 2009-14 has an effective date that is consistent with ASU 2009-13. The Company is currently evaluating the potential impact, if any, of the adoption of ASU 2009-14 on its consolidated results of operations and financial condition and whether it will adopt the standard early.

Note 3. Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. The Company uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards. The Company recognizes compensation cost related to options granted on a straight-line basis over the applicable vesting period.

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, including the contractual terms, vesting schedules, and expectations of employee behavior in the future. Expected stock price volatility is based on a combination of historical volatility of the Company's stock for the related expected term and the implied volatility of its traded options. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with a term equivalent to the expected term of the stock options. The Company has never paid dividends.

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

	Quarters		Six Months	
	Ended June 30,		Ended June 30,	
	2010	2009	2010	2009
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	1.65%	1.76%	1.91%	1.64%
Expected life (years)	4.0	4.2	4.0	4.2
Volatility	62%	63%	62%	63%

Recognized stock-based compensation expense is as follows (in thousands):

	Quarters		Six Months	
	Ended June 30,		Ended June 30,	
	2010	2009	2010	2009
Cost of revenue	\$ 228	\$ 363	\$ 459	\$ 993
Research and development	693	2,234	2,290	4,058
Sales and marketing	811	1,199	1,807	2,265
General and administrative	1,039	1,800	2,136	3,502
Total stock-based compensation expense	\$ 2,771	\$ 5,596	\$ 6,692	\$ 10,818

No stock-based compensation was capitalized as part of the cost of an asset during the quarters or six months ended June 30, 2010 or 2009. As of June 30, 2010, \$17.8 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock options, is expected to be recognized over a weighted-average period of 2.2 years.

Note 4. Rhapsody Joint Venture

Restructuring of Rhapsody

As described in Note 1, Summary of Significant Accounting Policies, the Company initially formed in August 2007 a joint venture with MTVN to own and operate a business-to-consumer digital audio music service known as Rhapsody. Prior to March 31, 2010, the Company owned 51% of the outstanding equity interests of Rhapsody and MTVN owned the remaining 49%. On March 31, 2010, restructuring transactions involving Rhapsody were completed, and Rhapsody was converted from a limited liability company to a corporation. Following the

completion of the restructuring transactions, RealNetworks owned slightly less than 47.5%, MTVN owned 47.5%, and two minority stockholders held slightly more than 5% of the outstanding shares of capital stock of Rhapsody. RealNetworks contributed \$18.0 million in cash, the Rhapsody brand and certain other assets, including content licenses, in exchange for shares of convertible preferred stock of Rhapsody, carrying a \$10.0 million preference upon certain liquidation events. As part of the transactions, RealNetworks repurchased the international radio business that was previously contributed to Rhapsody by

RealNetworks. MTVN contributed a \$33.0 million advertising commitment in exchange for shares of common stock of Rhapsody, and MTVN's previous obligation to provide advertising of approximately \$111 million as of December 31, 2009 was cancelled. In addition, the put and call rights held by RealNetworks and MTVN and MTVN's rights to receive a preferred return in connection with the exercise of RealNetworks' put right were terminated. RealNetworks is also obligated to provide certain operational transition services to Rhapsody until December 31, 2010, unless earlier terminated by Rhapsody. Rhapsody will be initially governed by a Board of Directors with two directors appointed by each of the Company and MTVN and one independent director appointed by mutual agreement of the Company and MTVN.

RealNetworks no longer has a controlling interest in Rhapsody and therefore, the operating results of Rhapsody are accounted for under the equity method of accounting for investments, and the Company's proportionate share of the income or loss is recognized as a component of other income and expense, net in the Company's consolidated statements of operations in periods subsequent to March 31, 2010. Since March 31, 2010, Rhapsody has been classified as an equity method investment, and RealNetworks removed all Rhapsody related assets and liabilities that were previously consolidated from its unaudited condensed consolidated balance sheet. The removal of these assets and liabilities and the creation of the equity method investment resulted in a one-time net gain of \$10.9 million recorded in other income and expense, net in the Company's unaudited condensed consolidated statement of operations for the quarter ended March 31, 2010, at which time the Company determined the fair value of its retained equity interest of approximately 47.5% to be approximately \$29.7 million. During the quarter ended June 30, 2010, the Company recorded its share of losses in the operations of Rhapsody of approximately \$5.4 million. These losses reduced the original carrying value of the equity investment accordingly to approximately \$24.2 million. As a result of the deconsolidation of Rhapsody's operations from the Company's financial statements, the Company will no longer record any operating or financial results for its Music segment for periods subsequent to March 31, 2010. The Company now reports its share of Rhapsody's income or losses as Equity in net loss of Rhapsody and other equity method investments in Other income.

As mentioned above, MTVN's preferred return rights were terminated in connection with the restructuring of Rhapsody. Prior to the restructuring, if the appraised value of Rhapsody at a redemption date was less than \$436.3 million, then the exercise price of the put would have included a preferred return to MTVN. The Company previously elected to accrete any excess of the redemption value over the carrying amount as an adjustment to income attributable to common shareholders, and adjusted earnings per share for the current quarter's accretion of the difference between accretion as calculated using the terms of the redemption feature and the accretion entry for a hypothetical fair value redemption feature. Due to the termination of MTVN's preferred return rights at the completion of the restructuring, the Company decreased the noncontrolling interest on the unaudited condensed consolidated balance sheet at March 31, 2010, by \$10.4 million as part of the deconsolidation transactions, of which \$3.7 million was an adjustment to income attributable to common shareholders for the purposes of calculating earnings per share for the quarter ended March 31, 2010. The Company increased the noncontrolling interest on the unaudited condensed consolidated balance sheet for the quarter and six months ended June 30, 2009, by \$0.4 million and \$1.8 million, respectively, which was an adjustment to income attributable to common shareholders for the purposes of calculating earnings per share. See Note 13, Earnings Per Share, for more information on this item.

Noncontrolling interest rollforward

Activity in noncontrolling interest and equity attributable to common shareholders is as follows (in thousands):

	Noncontrolling interest	Total Equity
Balances, December 31, 2008	\$ 378	\$ 553,558
Net loss	(12,081)	(200,465)
Contribution and other transactions with owners	13,475	7,237
Accretion of MTVN's equity interest in Rhapsody	5	(5)
Accretion of MTVN's preferred return in Rhapsody	1,850	