UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 21, 2012

OR

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

For the transition period from ____ to ____ .

Commission File Number: 001-34818

RealD Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**77-0620426** **(I.R.S. Employer Identification No.)**
100 N. Crescent Drive, Suite 200 **Beverly Hills, CA** **(Address of principal executive offices)**	**90210** **(Zip Code)**

(310) 385-4000
(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 x No o

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.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

On October 25, 2012, the registrant had 51,463,422 shares of common stock, par value $0.0001 per share, outstanding.

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RealD Inc.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED
September 21, 2012

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RealD Inc.

Condensed consolidated balance sheets

(in thousands, except per share data)

	September 21, 2012 (unaudited)	March 23, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 25,238	$ 24,894
Accounts receivable, net	50,195	59,212
Inventories	14,850	40,577
Deferred costs eyewear	558	932
Prepaid expenses and other current assets	3,696	2,630
Total current assets	94,537	128,245
Property and equipment, net	16,696	12,713
Cinema systems, net	131,691	141,024
Digital projectors, net-held for sale	1,002	1,078
Goodwill	10,657	10,657
Other intangibles, net	1,662	1,746
Deferred income taxes	3,049	3,049
Other assets	6,038	3,663
Total assets	$ 265,332	$ 302,175
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 15,343	$ 22,617
Accrued expenses and other liabilities	29,154	28,870
Deferred revenue	8,924	7,201
Income taxes payable	1,570	1,121
Deferred income taxes	3,093	3,149
Total current liabilities	58,084	62,958
Credit facility agreement	12,500	25,000
Deferred revenue, net of current portion	12,485	13,920
Other long-term liabilities, customer deposits and virtual print fee liability	2,999	2,691
Commitments and contingencies		
Equity (deficit)		
Common stock, $0.0001 par value, 200,000 shares authorized; 52,201 and 54,561 shares issued and outstanding at September 21, 2012 and March 23, 2012, respectively	320,071	309,894

Accumulated deficit		(140,140)		(112,711)
Total RealD Inc. stockholders equity		179,931		197,183
Noncontrolling interest		(667)		423
Total equity		179,264		197,606
Total liabilities and equity	$	265,332	$	302,175

See accompanying notes to condensed consolidated financial statements

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RealD Inc.

Condensed consolidated statements of operations (unaudited)

(in thousands, except share and per share data)

	Three months ended September 21, 2012	Three months ended September 23, 2011	Six months ended September 21, 2012	Six months ended September 23, 2011
Revenue:				
License	$ 34,976	$ 51,981	$ 76,165	$ 87,692
Product and other	20,010	36,014	46,999	59,863
Total revenue	54,986	87,995	123,164	147,555
Cost of revenue:				
License	14,283	14,703	24,296	21,119
Product and other	23,049	30,770	49,869	48,595
Total cost of revenue	37,332	45,473	74,165	69,714
Gross profit	17,654	42,522	48,999	77,841
Operating expenses:				
Research and development	4,592	3,755	9,490	8,400
Selling and marketing	5,924	6,466	12,819	13,695
General and administrative	12,189	9,792	23,451	18,222
Total operating expenses	22,705	20,013	45,760	40,317
Operating income (loss)	(5,051)	22,509	3,239	37,524
Interest expense, net	(288)	(272)	(601)	(483)
Other income (loss)	(21)	1,099	(374)	949
Income (loss) before income taxes	(5,360)	23,336	2,264	37,990
Income tax expense (benefit)	(1,129)	4,159	3,548	9,411
Net income (loss)	(4,231)	19,177	(1,284)	28,579
Net (income) loss attributable to noncontrolling interest	58	(272)	90	(79)
Net income (loss) attributable to RealD Inc. common stockholders	$ (4,173)	$ 18,905	$ (1,194)	$ 28,500
Earnings (loss) per common share:				
Basic	$ (0.08)	$ 0.35	$ (0.02)	$ 0.53
Diluted	$ (0.08)	$ 0.33	$ (0.02)	$ 0.50
Shares used in computing earnings (loss) per common share:				
Basic	53,915	54,343	54,314	54,151
Diluted	53,915	56,788	54,314	57,287

See accompanying notes to condensed consolidated financial statements

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RealD Inc.

Condensed consolidated statements of cash flows (unaudited)

(in thousands)

	Six months ended	
	September 21, 2012	**September 23, 2011**
Cash flows from operating activities		
Net income (loss)	$ (1,284)	$ 28,579
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	15,936	13,152
Deferred income tax	(56)	(180)
Non-cash interest expense	157	133
Non-cash stock compensation	9,094	7,632
Gain on sale of digital projectors		(1,156)
Loss on disposal of property and equipment	44	
Impairment of long-lived assets and related purchase commitments	5,901	7,828
Changes in operating assets and liabilities:		
Accounts receivable	6,541	(3,086)
Inventories	25,720	(725)
Prepaid expenses and other current assets	(676)	150
Deferred costs - eyewear	374	(162)
Other assets	(1,598)	(1,822)
Accounts payable	(7,256)	(17,818)
Accrued expenses and other liabilities	(3,323)	(12,772)
Other long-term liabilities, customer deposits and virtual print fee liability	308	1,223
Income taxes receivable/payable	449	7,030
Deferred revenue	288	136
Net cash provided by operating activities	50,619	28,142
Cash flows from investing activities		
Purchases of property and equipment	(6,266)	(1,993)
Purchases of cinema systems and related components	(6,664)	(38,011)
Proceeds from sale of digital projectors	2,474	3,999
Net cash used in investing activities	(10,456)	(36,005)
Cash flows from financing activities		
Repayments of long-term debt		(2,311)
Proceeds from credit facility	25,000	30,000
Repayments on credit facility	(37,500)	(5,000)
Payments of debt issuance costs	(1,167)	
Proceeds from exercise of stock options	782	479
Proceeds from employee stock purchase plan	301	
Proceeds from exercise of warrants		271
Proceeds from exercise of motion picture exhibitor options		3
Purchases of treasury stock	(26,235)	
Distributions to noncontrolling interests	(1,000)	
Net cash (used) provided by financing activities	(39,819)	23,442
Net increase in cash and cash equivalents	344	15,579
Cash and cash equivalents, beginning of period	24,894	16,936

Cash and cash equivalents, end of period	$	25,238	$	32,515

See accompanying notes to condensed consolidated financial statements

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RealD Inc.

Notes to condensed consolidated financial statements (unaudited)

1. Business and basis of presentation

RealD Inc., including its subsidiaries (RealD), is a global licensor of stereoscopic 3D technologies.

The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting and include all adjustments (consisting of only normal recurring adjustments, unless otherwise indicated), necessary for a fair presentation of our condensed consolidated financial statements. Interim results are not necessarily indicative of results for any subsequent quarter, the full fiscal year or any future periods. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended March 23, 2012.

The condensed consolidated financial statements include the accounts of RealD, its wholly owned subsidiaries and its majority owned subsidiaries. We do not have any interests in variable interest entities. For consolidated subsidiaries that are not wholly owned but are majority owned, the subsidiaries assets, liabilities, and operating results are included in their entirety in the accompanying condensed consolidated financial statements. The noncontrolling interests in those assets, liabilities, and operations are reflected as non-controlling interest in the condensed consolidated balance sheets under equity and condensed consolidated statements of operations.

On March 6, 2007, Digital Link II, LLC (Digital Link II) was formed between Ballantyne of Omaha, Inc. and RealD with member interests of 44.4% and 55.6%, respectively. Digital Link II was formed to fund the deployment of digital projector systems and servers to third-party exhibitors.

All significant intercompany balances and transactions have been eliminated in consolidation.

2. Summary of significant accounting policies

Accounting period

On October 29, 2012, the Company announced that it intended to change its accounting periods from the current configuration of four 13-week periods for a total of 52 weeks (with the current fiscal 2013 scheduled to end on March 22, 2013) to a calendar month end and calendar quarter end accounting period (with the proposed new fiscal 2013 scheduled to end on March 31, 2013). If adopted, this change in accounting period could commence in the current third quarter of fiscal 2013, with the Company s third quarter of fiscal 2013 ending on December 31, and with subsequent quarters ending on March 31, June 30 and September 30. The Company s fiscal year will continue to end in March, but would now end on March 31 instead of March 22.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Earnings (loss) per share of common stock

Basic income per share of common stock is computed by dividing the net income attributable to RealD Inc. common stockholders for the period by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed by dividing income attributable to RealD Inc. common stockholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under our employee stock purchase plan and unvested restricted stock units. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per common share by application of the treasury stock method.

The calculation of the basic and diluted earnings (loss) per share of common stock for the three and six months ended September 21, 2012 and September 23, 2011 was as follows:

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(in thousands, except per share data)	Three months ended September 21, 2012	Three months ended September 23, 2011	Six months ended September 21, 2012	Six months ended September 23, 2011
Numerator:				
Net income (loss)	$ (4,231)	$ 19,177	$ (1,284)	$ 28,579
Net (income) loss attributable to noncontrolling interest	58	(272)	90	(79)
Net income (loss) attributable to RealD Inc. common stockholders	$ (4,173)	$ 18,905	$ (1,194)	$ 28,500
Denominator:				
Weighted-average common shares outstanding (basic)	53,915	54,343	54,314	54,151
Effect of dilutive securities		2,445		3,136
Weighted-average common shares outstanding (diluted)	53,915	56,788	54,314	57,287
Earnings (loss) per common share:				
Basic	$ (0.08)	$ 0.35	$ (0.02)	$ 0.53
Diluted	$ (0.08)	$ 0.33	$ (0.02)	$ 0.50

The weighted-average number of anti-dilutive shares excluded from the calculation of diluted earnings (loss) per common share for the three and six months ended September 21, 2012 and September 23, 2011 was as follows:

(in thousands)	Three months ended September 21, 2012	Three months ended September 23, 2011	Six months ended September 21, 2012	Six months ended September 23, 2011
Options, employee stock purchase plan, restricted stock units and warrants to purchase common stock	9,467	4,656	7,451	2,379

Derivative instruments

Our derivative instruments are recorded at fair value in other current assets and other liabilities, respectively, in the condensed consolidated balance sheets. Changes in fair value are reported as a component of other income or loss on our condensed consolidated statements of operations. For all periods presented, none of our derivative instruments were designated as hedging instruments. We do not use foreign currency option or foreign exchange forward contracts for speculative or trading purposes.

We purchase foreign currency forward contracts, generally with maturities of six months or less, to reduce the volatility of cash flows primarily related to forecasted payments and expenses denominated in certain foreign currencies. As of September 21, 2012, we had outstanding forward contracts based in British pound sterling and Euro with notional amounts totaling $4.1 million. As of September 21, 2012, the carrying amounts of our foreign currency forward contracts were $0.2 million and were classified as Level 2 fair value instruments, which was determined based on observable inputs that were corroborated by market data. As of March 23, 2012, the carrying amounts of our foreign currency forward contracts were not significant. For the three and six months ended September 21, 2012, the net loss related to the change in fair value of our foreign currency forward contracts was $0.2 million and $0.1 million, respectively. For the three and six months ended September 23, 2011, the net gain (loss) related to the change in fair value of our foreign currency forward contracts was not significant.

Accounts receivable

Accounts receivable consist of trade receivables, VAT receivable and other receivables. We extend credit to our customers, who are primarily in the movie production and exhibition businesses. We provide for the estimated accounts receivable that will not be collected. These estimates are based on an analysis of historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in the customers payment terms and their economic condition. Collection of accounts receivable may be affected by changes in economic or other industry conditions and may, accordingly, impact our overall credit risk. The allowance for doubtful accounts and customer credits totaled $3.6 million and $4.2 million as of September 21, 2012 and March 23, 2012, respectively.

Inventories and deferred costs-eyewear

Inventories and deferred costs-eyewear represent RealD eyewear and are substantially all finished goods. Inventories and deferred costs eyewear are valued at the lower of cost (first-in, first-out method) or market value. At each balance sheet date, we evaluate ending inventories and deferred costs-eyewear for net realizable value. We also evaluate inventories for excess quantities and obsolescence. These evaluations include analyses of expected future average selling prices, projections of future demand and technology changes. In order to state inventories at the lower of cost or market, we maintain reserves against such inventories. If our

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analyses indicate that market is lower than cost, a write-down of inventories is recorded in cost of revenue in the period the loss is identified. As of September 21, 2012 and March 23, 2012, the inventory reserve as a result of our net realizable value analyses was $0.3 million and $0.6 million, respectively.

Domestically, we provide our RealD eyewear free of charge to motion picture exhibitors and then receive a fee from the motion picture studios for the usage of that RealD eyewear by the motion picture exhibitors consumers.

For RealD eyewear located at a motion picture exhibitor, we believe that it is not operationally practical to perform physical counts or request the motion picture exhibitor to perform physical counts and confirm quantities held to ensure that losses due to damage, destruction and shrinkage are specifically recognized in the period incurred due to the number of domestic RealD-enabled screens and related usage of RealD eyewear. We believe that the cost to monitor shrinkage or usage significantly outweighs the financial reporting benefits of using a specific identification methodology of expensing. We believe that utilizing a composite method of expensing RealD eyewear inventory costs provides a rational and reasonable approach to ensuring that shrinkage is provided for in the period incurred and that inventory costs are expensed in the periods that reasonably reflect the periods in which the related revenue is recognized. In doing so, we believe the following methodology reasonably and generally reflects periodic income or loss under these facts and circumstances:

- For an estimated period of time following shipment to domestic motion picture exhibitors, no expense is recognized between the time of shipment and until the delivery is made as the inventory unit is in transit and unused.

- The inventory unit cost is expensed on a straight-line basis over an estimated usage period beginning when we believe usage of the inventory unit has started. In estimating the expensing start date and related expense period, we consider various factors including, but not limited to, those relating to a 3D motion picture s opening release date, a 3D motion picture s expected release period, the number of currently playing 3D motion pictures, the motion picture exhibitor s buying and stocking patterns and practices and the quantities shipped per inventory unit.

We believe that the expensing methodology described above rationally and reasonably approximates the period the related usage occurs resulting in our RealD eyewear product revenue. The expensing start date following the date of shipment is meant to approximate the date at which usage begins. Additionally, as the expense recognition period has been and is expected to continue to be short, we believe it adequately recognizes inventory impairments due to loss and damage on a timely basis. We further believe that exposures due to loss or damage, if any, are considered normal shrinkage and a necessary and expected cost to generate the revenue per 3D motion picture earned through RealD eyewear usage. We continue to monitor the reasonableness of this methodology to ensure that it approximates the period over which the related RealD eyewear product revenue is earned and realizable. RealD eyewear inventory costs for products shipped that have not yet been expensed are reported as deferred costs-eyewear.

Impairment of long-lived assets

We review long-lived assets, such as property and equipment, cinema systems, digital projectors and intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors or circumstances that could indicate the occurrence of such events include current period operating or cash flow losses combined with a history of operating or cash flow losses, a projection or forecast that demonstrates continuing operating or cash flow losses, or incurring costs in excess of amounts originally expected to acquire or construct an asset. If the asset is not recoverable, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value.

During the three months ended September 21, 2012, we determined that a non-cancelable purchase commitment for certain cinema systems configurations in the aggregate amount of $3.5 million was not fully recoverable, primarily due to the initial investment costs which are expected to exceed the anticipated future cash flows for the related cinema systems. For the three months ended September 21, 2012, impairment charged to cost of revenue for the related outstanding purchase commitment totaled $3.5 million.

During the three months ended September 23, 2011, we determined that certain of our cinema systems were not recoverable and that the carrying value of the assets exceeded fair value, primarily due to the number of certain of our cinema system assets on hand, including related outstanding purchase commitments and the continuing shift in the mix in the deployment of cinema systems based on the type of digital projectors installed and theater configuration. The fair value was primarily determined by evaluating the future cash flows expected to be generated from the cinema systems. For the three months ended September 23, 2011, impairment charged to cost of revenue for certain of the cinema systems including related outstanding purchase commitments totaled $6.8 million.

For the three months ended September 21, 2012 and September 23, 2011, impairment charges for all impaired RealD Cinema Systems including related purchase commitments charged to cost of revenue totaled $4.3 million and $7.7 million, respectively. For

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the six months ended September 21, 2012 and September 23, 2011, impairment charges for all impaired RealD Cinema Systems including related purchase commitments charged to cost of revenue totaled $5.9 million and $7.8 million, respectively.

Revenue recognition

We derive substantially all of our revenue from the license of our RealD Cinema Systems and the product sale of our RealD eyewear. We evaluate revenue recognition for transactions using the criteria set forth by the SEC in Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104) and Accounting Standards Codification Topic 605, *Revenue Recognition* (ASC 605). The revenue recognition guidance states that revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller s price to the buyer is fixed or determinable and collectability is reasonably assured.

License revenue

License revenue is accounted for as an operating lease. License revenue is primarily derived under per-admission, periodic fixed fee, or per-motion picture basis with motion picture exhibitors. Amounts received up front, less estimated allowances, are deferred and recognized over the lease term using the straight-line method. Additional lease payments that are contingent upon future events outside our control, including those related to admission and usage, are recognized as revenues when the contingency is resolved and we have no more obligations to our customers specific to the contingent payment received. Certain of our license revenue from leasing our RealD Cinema Systems is earned upon admission by the motion picture exhibitor s consumers. Our licensees, however, do not report and pay for such license revenue until after the admission has occurred, which may be received subsequent to our fiscal period end. We estimate and record licensing revenue related to motion picture exhibitor consumer admissions in the quarter in which the admission occurs, but only when reasonable estimates of such amounts can be made. We determine that there is persuasive evidence of an arrangement upon the execution of a license agreement or upon the receipt of a licensee s admissions report. Revenue is deemed fixed or determinable upon verification of a licensee s admissions report. We determine collectability based on an evaluation of the licensee s recent payment history.

Product revenue

We recognize product revenue, net of allowances, when title and risk of loss have passed and when there is persuasive evidence of an arrangement, the payment is fixed or determinable, and collectability of payment is reasonably assured. In the United States and Canada, certain of our product revenue from the sale of our RealD eyewear is earned upon admission and usage by the motion picture exhibitor s consumers. Our customers, however, do not report admission or usage information until after the admission and usage has occurred, and such information may be received subsequent to our fiscal period end. We estimate and record such product revenue in the quarter in which the admission and usage occurs, but only when reasonable estimates of such amounts can be made.

Shipping and handling costs

Amounts billed to customers for shipping and handling costs are included in revenue. Shipping and handling costs that we incur consist primarily of packaging and transportation charges and are recorded in cost of revenue. Shipping and handling costs recognized in cost of revenue were $2.4 million and $2.2 million for the three months ended September 21, 2012 and September 23, 2011, respectively. Shipping and handling costs recognized in cost of revenue were $4.7 million and $4.0 million for the six months ended September 21, 2012 and September 23, 2011, respectively.

Recent accounting pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, *Intangibles (Topic 350)   Goodwill and Other*, which allows companies to waive comparing the fair value of a reporting unit to its carrying amount in assessing the recoverability of goodwill if, based on qualitative factors, it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*, an amendment to FASB Accounting Standards Codification (ASC) Topic 350, *Intangibles - Goodwill and Other*. The update provides an entity with the option first to assess qualitative factors in determining whether it is more likely than not that the indefinite-lived intangible asset is impaired. After assessing the qualitative factors, if an entity determines that it is not more likely than not that the indefinite-lived intangible asset is impaired, the entity is not required to take further action. If an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. The ASU is effective for our annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption was permitted. We did not

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early adopt the provisions of this ASU; however, we do not expect the impact of adopting this ASU to be material to our consolidated financial statements.

3. Property and equipment, RealD Cinema Systems and digital projectors

Property and equipment, RealD Cinema Systems and digital projectors consist of the following:

(in thousands)	September 21, 2012	March 23, 2012
RealD Cinema Systems	$ 187,606	$ 184,197
Digital projectors - held for sale	1,843	1,843
Leasehold improvements	8,597	4,325
Machinery and equipment	5,176	6,641
Furniture and fixtures	12	12
Computer equipment and software	2,956	2,788
Construction in process	5,047	3,364
Total	$ 211,237	$ 203,170
Less accumulated depreciation	(61,848)	(48,355)
Property and equipment, RealD Cinema Systems and digital projectors, net	$ 149,389	$ 154,815

Depreciation expense amounted to $8.0 million and $7.0 million for the three months ended September 21, 2012 and September 23, 2011, respectively. Depreciation expense totaled $15.9 million and $13.1 million for the six months ended September 21, 2012 and September 23, 2011, respectively.

We receive virtual print fees (VPFs) from third-party motion picture studios. VPFs represent amounts from third-party motion picture studios that are paid to us when a motion picture is played on one of our digital projectors. VPFs are deferred and deducted from the selling price of the digital projector. VPFs are recorded as a liability on the accompanying condensed consolidated balance sheets and totaled $0.3 million as of both September 21, 2012 and March 23, 2012.

During the six months ended September 21, 2012, we received $2.5 million in cash from motion picture exhibitor customers for the sale of digital projectors that was included in accounts receivable as of March 23, 2012. During the three and six months ended September 23, 2011, we received $4.0 million cash from motion picture exhibitor customers for the sale of digital projectors, resulting in a gain of $1.2 million in other income (loss).

During the three months ended September 21, 2012, we determined that a non-cancelable purchase commitment for certain cinema systems configurations in the aggregate amount of $3.5 million was not fully recoverable, primarily due to the initial investment costs which are expected to exceed the anticipated future cash flows for the related cinema systems. For the three months ended September 21, 2012, impairment charged to cost of revenue for the related outstanding purchase commitment totaled $3.5 million.

During the three months ended September 23, 2011, we determined that certain of our cinema systems were not recoverable and that the carrying value of the assets exceeded fair value, primarily due to the number of certain of our cinema system assets on hand, including related outstanding purchase commitments and the continuing shift in the mix in the deployment of cinema systems based on the type of digital projectors installed and theater configuration. The fair value was primarily determined by evaluating the future cash flows expected to be generated from the cinema systems. For the three months ended September 23, 2011, impairment charged to cost of revenue for certain of the cinema systems including related outstanding purchase commitments totaled $6.8 million.

For the three months ended September 21, 2012 and September 23, 2011, impairment charges for all impaired RealD Cinema Systems including related purchase commitments charged to cost of revenue totaled $4.3 million and $7.7 million, respectively. For the six months ended September 21, 2012 and September 23, 2011, impairment charges for all impaired RealD Cinema Systems including related purchase commitments charged to cost of revenue totaled $5.9 million and $7.8 million, respectively.

4. Borrowings

Credit Agreement

On April 19, 2012, we entered into a credit agreement (the Credit Agreement) with City National Bank, a national banking association (City National). Pursuant to the Credit Agreement, the lenders thereunder will make available to us:

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- a revolving credit facility (including a letter of credit sub-facility) in a maximum amount not to exceed $75 million (the Revolving Facility); and

- a delayed-draw term loan facility in a maximum amount not to exceed $50 million (the Term Loan Facility)

The Revolving Facility and the Term Loan Facility replaced existing revolving and term loan facilities provided under our pre-existing credit and security agreement with City National, which had been most recently amended on December 6, 2011.

Debt issuance costs related to the completion of the Credit Agreement totaled $1.2 million and were recorded as a deferred charge and amortized over the contractual life of the agreement and recorded as interest expense.

Our obligations under the Credit Agreement are secured by a first priority security interest in substantially all of our tangible and intangible assets and are fully and unconditionally guaranteed by our subsidiaries, ColorLink Inc., a Delaware corporation (ColorLink), and Stereographics Corporation, a California corporation (Stereographics). In connection with our execution of the Credit Agreement, on April 19, 2012, each of ColorLink and Stereographics entered into a general continuing guaranty (the Guaranty) in favor of City National and the lenders under the Credit Agreement, pursuant to which they irrevocably and unconditionally guaranteed our obligations under the Credit Agreement and all related loan documents. In addition, on April 19, 2012, we, ColorLink and Stereographics entered into a security agreement in favor of City National and the lenders under the Credit Agreement, pursuant to which they granted a security interest in substantially all of their assets to secure their obligations under the Credit Agreement, the Guaranty and the related loan documents.

The Revolving Facility matures on April 17, 2015, and the Term Loan Facility matures the last day of the twelfth (12th) full fiscal quarter after the earlier of October 18, 2013 or the date that aggregate term loan commitments have been drawn in full, which maturity dates may, in each case, be accelerated in certain circumstances.

Under the Credit Agreement, our business is subject to certain limitations, including limitations on our ability to incur additional debt, make certain investments or acquisitions, enter into certain merger and consolidation transactions, and sell our assets other than in the ordinary course of business. We are also required to maintain compliance with certain financial covenants, including a minimum fixed charge coverage ratio and a maximum leverage ratio. As of September 21, 2012, we were in compliance with all financial covenants in our Credit Agreement. If we fail to comply with any of the covenants or if any other event of default, as defined in our Credit Agreement, should occur, the bank lenders could elect to prevent us from borrowing and declare the indebtedness to be immediately due and payable.

The revolving credit facility provides for, at our option, Eurodollar Rate Loans, which bears interest at the London Interbank Offered Rate (LIBOR) plus two and one-half percent (2.50%) or Base Rate Loans, which bear interest at the greatest of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the Prime Rate, and (c) the Eurodollar Rate for a one month Interest Period on such day plus 1.00%, plus one and one-half percent (1.5%).

As of September 21, 2012, there was $12.5 million in borrowings outstanding under the Credit Agreement which bears interest at approximately 3.25%. As of March 23, 2012, there was $25.0 million in borrowings outstanding under our prior revolving and term loan facility. Interest expense related to our borrowings under our Credit Agreement was $0.3 million and $0.6 million for the three and six months ended

September 21, 2012, respectively. Interest expense related to our borrowings under our prior revolving and term loan facility was $0.2 million and $0.4 million for the three and six months ended September 21, 2012 and September 23, 2011, respectively.

5. Commitments and contingencies

Indemnities and commitments

During the ordinary course of business, we make certain indemnities and commitments under which we may be required to make payments in relation to certain transactions. These indemnities include indemnities of certain customers and licensees of our technologies, and indemnities to our directors and officers to the maximum extent permitted under the laws of the State of Delaware. The duration of these indemnities and commitments varies, and in certain cases, is indefinite. The majority of these indemnities and commitments do not provide for any limitation of the maximum potential future payments we could be obligated to make. We have not recorded any liability for these indemnities and commitments in the accompanying condensed consolidated balance sheets. We do, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is reasonably probable and estimable.

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We have entered into contracts with certain of our vendors. Future obligations under such contracts totaled $5.3 million at September 21, 2012 and include revolving 90-day supply commitments. Many of the contracts contain cancellation penalty provisions requiring payment of up to 20.0% of the unused contract.

During the three months ended September 21, 2012, we determined that a non-cancelable purchase commitment for certain cinema systems configurations in the aggregate amount of $3.5 million was not fully recoverable, primarily due to the initial investment costs which are expected to exceed the anticipated future cash flows for the related cinema systems. For the three months ended September 21, 2012, impairment charged to cost of revenue for the related outstanding purchase commitment totaled $3.5 million.

6. Share-based compensation

We account for share-based payment awards granted to employees and directors by recording compensation expense based on estimated fair values. We estimate the fair value of share-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statements of operations. Share-based awards are attributed to expense using the straight-line method over the vesting period. We determine the value of each option award that contains a market condition using a lattice-based option valuation model, while all other option awards are valued using the Black-Scholes valuation model as permitted under ASC 718, *Compensation Stock Compensation*. The assumptions used in calculating the fair value of share-based payment awards represent our best estimates. Our estimates of the fair values of stock options granted and the resulting amounts of share-based compensation recognized may be impacted by certain variables including stock price volatility, employee stock option exercise behaviors, additional stock option grants modifications, estimates of forfeitures, and the related income tax impact.

Share-based compensation expense for all share-based arrangements for the three and six months ended September 21, 2012 and September 23, 2011 was as follows:

	Three months ended		Six months ended	
(in thousands)	**September 21, 2012**	**September 23, 2011**	**September 21, 2012**	**September 23, 2011**
Share-based compensation				
Cost of revenue	$ 267	$ 133	$ 444	$ 198
Research and development	538	1,174	968	1,571
Selling and marketing	1,362	1,313	2,699	2,224
General and administrative	2,645	2,113	4,983	3,639
Total	$ 4,812	$ 4,733	$ 9,094	$ 7,632

Stock options granted generally vest over a four-year period, with 25% of the shares vesting after one year and monthly vesting thereafter. The options generally expire ten years from the date of grant. For the six months ended September 21, 2012, we granted 1.8 million stock options at a weighted average grant date fair value of $6.26 per share. For the three months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to stock options and our employee stock purchase plan was $3.6 million and $3.9 million, respectively. For the six months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to stock options and our employee stock purchase plan was $7.0 million and $6.0 million, respectively.

Certain of our management-level employees receive performance stock options, which gives the recipient the right to receive common stock that is contingent upon achievement of specified pre-established performance goals over the performance period, which is generally three years. The performance goals for the performance stock options are based on the measurement of our total shareholder return, on a percentile basis, compared to a comparable group of companies. Depending on the outcome of the performance goals, the recipient may ultimately earn performance stock options equal to or less than the number of performance stock options granted. For the three months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to performance stock options was $0.5 million and $0.3 million, respectively. For the six months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to performance stock options was $0.9 million and $0.8 million, respectively.

Restricted stock units vest over one to four years. For the six months ended September 21, 2012, we granted 0.2 million restricted stock units at a weighted average grant date fair value of $10.47 per restricted stock unit. For the three months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to restricted stock units was $0.7 million and $0.5 million, respectively. For the six months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to restricted stock units was $1.2 million and $0.8 million, respectively.

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7. Income taxes

Our income tax expense (benefit) for the three months ended September 21, 2012 and September 23, 2011 was a benefit $1.1 million and expense of $4.2 million, respectively. Our income tax expense for the six months ended September 21, 2012 and September 23, 2011 was $3.5 million and $9.4 million, respectively. We have net operating losses that may potentially be offset against future earnings. We file federal income tax returns and income tax returns in various state and foreign jurisdictions. Due to the net operating loss carryforwards, our United States federal and state returns are open to examination by the Internal Revenue Service and state jurisdictions for all years since inception.

As of September 21, 2012, we have determined based on the weight of the available evidence, both positive and negative, to provide for a valuation allowance against substantially all of the net deferred tax assets. The current deferred tax assets not reserved for by the valuation allowance are those in foreign jurisdictions or amounts that may be carried back in future years. If there is a change in circumstances that causes a change in judgment about the realizability of the deferred tax assets, we will adjust all or a portion of the applicable valuation allowance in the period when such change occurs.

8. Equity

A summary of the changes in total equity for the six months ended September 21, 2012 was as follows:

(in thousands)		**RealD Inc. stockholders deficit**		**Noncontrolling interest**		**Total equity (deficit)**
Balance, March 23, 2012	$	197,183	$	423	$	197,606
Share-based compensation		9,094		-		9,094
Exercise of stock options		782		-		782
Purchase and distribution of stock under employee stock purchase plan		301		-		301
Purchases of treasury stock		(26,235)		-		(26,235)
Distributions to noncontrolling interests		-		(1,000)		(1,000)
Comprehensive income (loss):						
Net income (loss)		(1,194)		(90)	$	(1,284)
Total comprehensive loss						(1,284)
Balance, September 21, 2012	$	179,931	$	(667)	$	179,264

On April 20, 2012, we announced that our board of directors had approved an authorization to repurchase up to $50 million of RealD common stock. The number of shares to be repurchased and the timing of any potential repurchases will depend on factors such as the Company s stock price, economic and market conditions, alternative uses of capital, and corporate and regulatory requirements. Repurchases of common stock may be made under a Rule 10b5-1 plan, which would permit common stock to be repurchased when RealD might otherwise be precluded from doing so under insider trading laws, and a variety of other methods, including open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, or by any combination of such methods. The repurchase program may be suspended or discontinued at any time.

Pursuant to the stock repurchase plan authorized by our board of directors on April 20, 2012, we repurchased a total of 2,560,148 shares of common stock for an aggregate cost of, including sales commissions, $26.2 million during the six months ended September 21, 2012.

9. Related-party transactions

On May 9, 2011, we entered into a separation agreement and general release of claims with Joshua Greer, a former director and executive officer of the Company. Pursuant to the terms of the separation agreement, Mr. Greer will receive the following benefits: (i) cash severance of $450,000 paid in ten equal installments, with the first such installment paid on October 15, 2011; (ii) reimbursement from us for insurance coverage under COBRA for 18 months following July 15, 2011 or such earlier time as Mr. Greer becomes eligible for insurance through another employer; (iii) a pro-rated cash performance bonus for fiscal year 2012 (to be paid no later than June 15, 2012), in an amount equal to 30% of 80% of Mr. Greer s salary, computed assuming that Mr. Greer had remained as our president through the end of fiscal year 2012; and (iv) acceleration of a time-based vesting stock option for 105,000 shares granted to Mr. Greer on July 15, 2010 as of July 15, 2011, which will remain exercisable for six months following the end of the term of the consulting agreement that we entered into with Mr. Greer on the same date. A second stock option for 105,000 shares granted to Mr. Greer on July 15, 2010 was entirely forfeited and cancelled without consideration. We entered into a consulting agreement with Mr.

Greer pursuant to which Mr. Greer will be paid $275,000 per year commencing as of July 16, 2011. The consulting agreement with Mr. Greer expired on July 16, 2012. On June 21, 2012, Mr. Greer notified us of his resignation from our board of directors to be effective on July 16, 2012 upon the expiration of the consulting agreement.

For the three months ended September 21, 2012, we paid Mr. Greer $11,458 pursuant to his consulting agreement. For the six months ended September 21, 2012, we paid Mr. Greer $180,000 pursuant to his separation agreement and $148,958 pursuant to his consulting agreement.

We entered into a consulting agreement, effective as of May 29, 2012 (the DCH Agreement), with DCH Consultants LLC (DCH), an entity controlled by Mr. David Habiger. Mr. Habiger is a member of the Company s Board of Directors, its nominating and corporate governance committee, and its compensation committee.

Pursuant to the DCH Agreement, DCH will provide certain consulting services regarding the application of one or more of our technologies in the consumer electronics industry, all as we and DCH may agree upon from time to time. The DCH Agreement has a term of 4 months and DCH shall be entitled to receive aggregate fixed compensation of $20,000 per month during the term of the DCH Agreement. We have the right to extend the engagement for up to two additional months on the same terms, by providing DCH with 10 days written notice prior to the end of the original term.

There were no payments pursuant to the DCH Agreement for the three months ended September 21, 2012. For the six months ended September 21, 2012, we paid DCH $20,239 pursuant to the DCH Agreement.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary note on forward-looking statements

The following discussion and analysis should be read in conjunction with our interim condensed consolidated financial statements and the related notes that appear elsewhere in this Form 10-Q. These discussions contain forward-looking statements reflecting our current expectations that involve risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as intends, may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential, continue or the negative of these terms or other comparable terminology, but the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements include, but are not limited to: statements regarding the extent and timing of future licensing, products and services revenue levels and mix, expenses, margins, net income (loss) per diluted share, income taxes, tax benefits, acquisition costs and related amortization, and other measures of results of operations; our expectations regarding demand and acceptance for our technologies; 3D motion picture releases and conversions scheduled for fiscal 2013 ending March 22, 2013 as well their commercial success and consumer preferences; our relationships with consumer electronics manufacturers and our ability to generate substantial revenue from the licensing of our 3D technologies for use in the 3D consumer electronics market; our ability to increase the number of RealD-enabled screens in domestic and international markets and market share; our ability to supply our solutions to our customers on a timely basis; RealD relationships with exhibitor and studio partners and the business model for 3D eyewear in North America; the progress, timing and amount of expenses associated with our research and development activities; market and industry growth opportunities and trends in the markets in which we operate, including in 3D content; our plans, strategies and expected opportunities; the deployment of and demand for our products and products *incorporating our technologies; and competitive pressures in domestic and international cinema markets impacting licensing and product revenues. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including the risks set forth in the section entitled Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q and elsewhere in this filing. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our prior statements to actual results.*

Overview

We are a leading global licensor of 3D technologies. Our extensive intellectual property portfolio is used in applications that enable a premium 3D viewing experience in the theater, the home and elsewhere. We license our RealD Cinema Systems to motion picture exhibitors that show 3D motion pictures and alternative 3D content. We also provide our RealD Display, active and passive eyewear, and RealD Format to consumer electronics manufacturers and content providers and distributors to enable the delivery and viewing of 3D content on high definition televisions, laptops and other displays. Our cutting-edge 3D technologies have been used for applications such as piloting the Mars Rover.

For financial reporting purposes, we currently have one reportable segment. We have three operating segments: cinema, consumer electronics and professional within which we market our various applications. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our Chief Executive Officer. We aggregate our three operating segments into one reportable segment based on qualitative factors, including similar economic characteristics and the nature of the products and services. Our product portfolio is used in applications that enable a premium 3D viewing experience across these segments. We currently generate substantially all of our revenue from the license of our RealD Cinema Systems and the use and sale of our eyewear.

Key business metrics

Our management regularly reviews a number of business metrics, including the following key metrics to evaluate our business, monitor the performance of our business model, identify trends affecting our business, determine the allocation of resources, make decisions regarding corporate strategies and evaluate forward-looking projections. The measures that we believe are the primary indicators of our quarterly and annual performance are as follows:

- **RealD box office.** Estimated domestic box office on RealD-enabled screens represents the estimated 3D box office generated on RealD-enabled domestic screens. Estimated international box office on RealD-enabled international screens is the estimated 3D box office generated on RealD-enabled international screens. RealD s estimates of box office on RealD-enabled screens rely on box office tracking data. International box office reflects RealD s estimates of international box office generated on RealD-enabled screens in 20 foreign countries where box office tracking is available. RealD estimates these countries represent approximately 90% of RealD s international license revenues.

- **Number of 3D motion pictures.** Total 3D motion pictures are the number of 3D motion pictures that are exhibited for more than three showings per day and for a period in excess of one week and for which we receive a license fee from the motion picture exhibitor during the relevant period.

- **Number of screens.** Domestic screens are motion picture theater screens in the United States or Canada enabled with our RealD Cinema Systems. International screens are motion picture theater screens outside the United States and Canada enabled with our RealD Cinema Systems.

- **Number of locations.** Domestic locations are motion picture exhibition complexes in the United States or Canada with one or more screens enabled with our RealD Cinema Systems. International locations are motion picture exhibition complexes outside the United States and Canada with one or more screens enabled with our RealD Cinema Systems.

- **Adjusted EBITDA.** We use Adjusted EBITDA as a supplemental measure of our performance. We define Adjusted EBITDA as net income (loss), plus net interest expense, income and other taxes, depreciation and amortization, share-based compensation expense and exhibitor option expense, as further adjusted to eliminate the impact of certain other items that we do not consider indicative of our core operating performance. We consider our core operating performance to be that which can be affected by our managers in any particular period through their management of the resources that affect our underlying revenue and profit generating operations for that period. However, Adjusted EBITDA is not a recognized measurement under U.S. GAAP and should not be considered in isolation or as a substitute for performance measures calculated in accordance with U.S. GAAP. For a reconciliation of Adjusted EBITDA to U.S. GAAP net income (loss) and for further discussion regarding Adjusted EBITDA, see Non-U.S. GAAP discussion.

The following table sets forth additional performance highlights of key business metrics for the periods presented (approximate numbers):

	Three months ended	
(approximate numbers, in millions)	**September 21, 2012**	**September 23, 2011**
Estimated box office on RealD screens (generated during the period)		
Estimated box office on RealD domestic screens	$ 286	$ 519
Estimated box office on RealD international screens	423	655
Total estimated box office on RealD screens	$ 709	$ 1,174

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(approximate numbers)	Six months ended September 21, 2012	September 23, 2011
Number of 3D motion pictures (released during period)	19	20

	September 21, 2012	September 23, 2011
Number of RealD enabled screens (at period end)		
Total domestic RealD enabled screens	12,300	11,100
Total international RealD enabled screens	9,200	7,600
Total RealD enabled screens	21,500	18,700
Number of locations with RealD enabled screens (at period end)		
Total domestic locations with RealD enabled screens	2,700	2,500
Total international locations with RealD enabled screens	2,600	2,400
Total locations with RealD enabled screens	5,300	4,900

Performance highlights for Adjusted EBITDA, another key business metric and a Non-U.S. GAAP financial measure, are presented below under the caption Non-U.S. GAAP discussion.

If we are successful in expanding our business with consumer electronics manufacturers and content producers and distributors to incorporate our RealD Display and RealD Format technologies into their products and platforms, our key business metrics in future periods may include the number of units of 3D-enabled plasma and LCD televisions, interactive gaming consoles and laptop computers shipped in that period. To date, we have not generated significant revenue in our consumer electronics business.

Opportunities, trends and factors affecting comparability

We have rapidly evolved and expanded our business since we acquired ColorLink in March 2007. This expansion has included hiring most of our senior management team, acquiring and growing our research and development facilities in Boulder, Colorado, and building infrastructure to support our business. These investments in and changes to our business have allowed us to significantly increase our revenue and key business metrics. We expect to continue to invest for the foreseeable future in expanding our business as we increase our direct sales and marketing presence in the United States, Europe, Asia, Latin America and other geographic regions, enhance and expand our technology and product offerings and pursue strategic acquisitions.

Cinema

The shift in the motion picture industry from analog to digital over the past decade has created an opportunity for new and transformative 3D technologies. As of September 21, 2012, there were approximately 21,500 RealD-enabled screens worldwide as compared to approximately 18,700 RealD-enabled screens worldwide as of September 23, 2011, an increase of 2,800 RealD-enabled screens or 15%. Based on the slate announcements by motion picture studios, we anticipate that approximately 35 3D motion pictures will be released worldwide in our fiscal year 2013, including sequels to successful major motion picture franchises, such as *Men in Black, Madagascar, Spider-Man* and *Ice Age,* as well as original content such as *The Avengers, Prometheus, Brave* and *The Hobbit.*

Consumer electronics

We have recently made available our RealD Display, active and passive eyewear, and RealD Format technologies to consumer electronics manufacturers and content distributors to enable 3D in high definition televisions, laptops and other displays in the home and elsewhere. We believe that the recent success of major 3D motion pictures, including *The Avengers*, *Ice Age: Continental Drift, The Amazing Spider-Man, Madagascar 3: Europe s Most Wanted, Men in Black III* and *Brave* is leading to the creation and distribution of 3D content for consumer electronics. The development of these technologies represents a significant opportunity for new revenue.

Results of operations

The following table sets forth our condensed consolidated statements of operations and other data for each of the periods indicated:

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(in thousands)	Three months ended September 21, 2012	Three months ended September 23, 2011	Six months ended September 21, 2012	Six months ended September 23, 2011
Consolidated statements of operations data:				
Revenue	$ 54,986	$ 87,995	$ 123,164	$ 147,555
Cost of revenue	37,332	45,473	74,165	69,714
Gross margin	17,654	42,522	48,999	77,841
Operating expenses:				
Research and development	4,592	3,755	9,490	8,400
Selling and marketing	5,924	6,466	12,819	13,695
General and administrative	12,189	9,792	23,451	18,222
Total operating expenses	22,705	20,013	45,760	40,317
Operating income (loss)	(5,051)	22,509	3,239	37,524
Interest expense, net	(288)	(272)	(601)	(483)
Other income (loss)	(21)	1,099	(374)	949
Income (loss) before income taxes	(5,360)	23,336	2,264	37,990
Income tax expense (benefit)	(1,129)	4,159	3,548	9,411
Net income (loss)	(4,231)	19,177	(1,284)	28,579
Net (income) loss attributable to noncontrolling interest	58	(272)	90	(79)
Net income (loss) attributable to RealD Inc. common stockholders	$ (4,173)	$ 18,905	$ (1,194)	$ 28,500
Other data:				
Adjusted EBITDA (1)	$ 13,774	$ 44,353	$ 36,943	$ 70,409

(1) Adjusted EBITDA is not a recognized measurement under U.S. GAAP. For a definition of Adjusted EBITDA and reconciliation to net income (loss), the comparable U.S. GAAP item, see Non-U.S. GAAP discussion. .

Three months ended September 21, 2012 compared to three months ended September 23, 2011

Revenue

(in thousands)	Three months ended September 21, 2012	Three months ended September 23, 2011	Amount change	Percentage change
Revenue:				
License revenue	$ 34,976	$ 51,981	$ (17,005)	-33%
Product and other	20,010	36,014	(16,004)	-44%
Total revenue	$ 54,986	$ 87,995	$ (33,009)	-38%

The decrease in net revenue recorded during the three months ended September 21, 2012 compared to the three months ended September 23, 2011 was primarily due to a decrease in net license revenues resulting from a decrease in box office performance, lower domestic eyewear usage and lower international eyewear sales. Our international markets comprised approximately 55% of total revenue for the three months ended September 21, 2012 as compared to 50% for the three months ended September 23, 2011. The decrease in net revenues attributable to international markets was driven by both a decrease box office performance and purchases of RealD eyewear.

For the three months ended September 21, 2012, there were seven motion pictures that contributed greater than $1.0 million of admission-based fees to net license revenue. Net license revenue for the three months ended September 21, 2012 includes admission-based fees related to the following motion pictures: *Ice Age: Continental Drift* ($6.7 million), *The Amazing Spider-Man* ($6.3 million), *Brave* ($3.6 million), *Madagascar 3: Europe s Most Wanted* ($2.4 million), *Prometheus* ($1.8 million), *Step Up Revolution* ($1.2 million) and *Men in Black III* ($1.2 million).

For the three months ended September 23, 2011, there were ten motion pictures that contributed greater than $1.0 million of admission-based fees to net license revenue. Net license revenue for the three months ended September 23, 2011 includes admission-based fees related to the following motion pictures: *Transformers: Dark of the Moon* ($10.9 million), *Harry Potter and the Deathly Hallows Part 2* ($10.3 million), *Cars 2* ($4.4 million), *The Smurfs* ($4.1 million), *Captain America: The First Avenger* ($3.3 million), *Kung Fu Panda 2* ($1.9 million), *Green Lantern* ($1.7 million), *Final Destination 5* ($1.4 million), *Lion King 3D* ($1.3 million) and *Pirates of the Caribbean: On Stranger Tides* ($1.2 million).

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Net license revenues comprised 64% and 59% of total revenues for the three months ended September 21, 2012 and September 23, 2011, respectively. International license revenues comprised 61% and 56% of gross license revenue for the three months ended September 21, 2012 and September 23, 2011, respectively.

The decrease in our net product and other revenue in the three months ended September 21, 2012 as compared to the three months ended September 23, 2011, was primarily a result of a decrease in the volume of RealD eyewear sold to our domestic and international markets as well as a reduction in average eyewear revenue per unit sold. The decrease in RealD eyewear volume internationally compared to the prior period resulted from a growing trend among consumers to reuse RealD eyewear for multiple viewings, as well as exhibitor buying patterns relative to the film slate and purchases by certain international exhibitors from alternative suppliers, including authorized resellers of RealD eyewear. International product revenues comprised 44% of total product revenues in the three months ended September 21, 2012 as compared to 41% for the three months ended September 23, 2011. International product and other revenues were 41% of international license revenue for the three months ended September 21, 2012 as compared to 50% for the three months ended September 23, 2011.

We expect our future revenue, particularly in our license business, will be driven by the number of RealD-enabled screens and motion pictures released in 3D and the box office performance of those films. As the volume of RealD eyewear usage changes as a result of an expanding 3D motion picture slate and box office performance, we may experience additional price pressure from our customers. As a result, our net revenues may increase at a slower rate or decline in future periods.

Cost of Revenue

	Three months ended			
(in thousands)	**September 21, 2012**	**September 23, 2011**	**Amount change**	**Percentage change**
Revenue	$ 54,986	$ 87,995	$ (33,009)	-38%
Cost of revenue:				
License	14,283	14,703	(420)	-3%
Product and other	23,049	30,770	(7,721)	-25%
Total cost of revenue	$ 37,332	$ 45,473	$ (8,141)	-18%
Gross profit	$ 17,654	$ 42,522	$ (24,868)	(58%)
Gross margin	32%	48%		

For the three months ended September 21, 2012, our cost of revenue decreased primarily due to the decrease in the volume of RealD eyewear usage. Cost of revenue increased, as a percentage of revenue, to 68% for the three months ended September 21, 2012, as compared to 52% for the three months ended September 23, 2011 due to a reduction in license revenues as well as a reduction in the product mix of lower cost recycled eyewear and $0.5 million related to the impairment of eyewear tooling equipment. The percentage of usage of recycled eyewear may decrease in future periods resulting in lower gross profit and gross margin.

License cost of revenue decreased $0.4 million quarter-over-quarter primarily as a result of a $3.4 million decrease in impairment expense offset by a $2.2 million increase in field support and other costs, and $0.8 million increase in depreciation expense resulting from an increase in RealD-enabled screens. Included in license cost of sales for the three months ended September 21, 2012 and September 23, 2011 is depreciation expense of $7.1 million and $6.3 million, respectively. Depreciation expense as a percentage of gross license revenue increased to 20% for the three months ended September 21, 2012 from 12% for the three months ended September 23, 2011.

During the three months ended September 21, 2012, we determined that a non-cancelable purchase commitment for certain cinema systems configurations in the aggregate amount of $3.5 million was not fully recoverable, primarily due to the initial investment costs which are expected to exceed the anticipated future cash flows for the related cinema systems. For the three months ended September 21, 2012, impairment charged to cost of revenue for the related outstanding purchase commitment totaled $3.5 million.

During the three months ended September 23, 2011, we determined that certain of our cinema systems were not recoverable and that the carrying value of the assets exceeded fair value, primarily due to the number of certain of our cinema system assets on hand, including related outstanding purchase commitments and the continuing shift in the mix in the deployment of cinema systems based on the type of digital projectors installed and theater configuration. The fair value was primarily determined by evaluating the future cash flows expected to be generated from the cinema systems. For the three months ended September 23, 2011, impairment charged to cost of revenue for certain of the cinema systems including related outstanding purchase commitments totaled $6.8 million.

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Product and other gross profit decreased $7.7 million quarter-over-quarter, primarily as a result of the decrease in the volume of RealD eyewear, the reduced percentage of lower cost recycled eyewear in the total product mix, $0.5 million related to the impairment of eyewear tooling equipment and a reduction in average eyewear revenue per unit sold. Product and other gross margin decreased to (15%) for the three months ended September 21, 2012 as compared to 15% for the three months ended September 23, 2011.

Costs associated with our eyewear recycling program have been expensed in the period incurred. Recycling costs totaled $2.1 million for the three months ended September 21, 2012 and $2.3 million for the three months ended September 23, 2011, and included the cost to transport RealD eyewear between theaters and the recycling production facility and costs to process the RealD eyewear for reuse.

Our cost of revenue as a percentage of net revenue, as well as our gross profit and gross margin, will be affected in the future by the relative mix of net license and net product revenue, the mix of domestic and international product revenues, the relative mix of products and any new revenue sources, impairment charges and the percentage of usage of recycled eyewear. Impairment charges in future periods may increase as a result of system upgrades and replacements as well as changes in product offerings and new technology. As the number of RealD-enabled screens and the number of 3D motion pictures and attendance increase, our total cost of revenue may continue to increase.

Operating Expenses

	Three months ended			
(in thousands)	**September 21, 2012**	**September 23, 2011**	**Amount change**	**Percentage change**
Research and development	$ 4,592	$ 3,755	$ 837	22%
Selling and marketing	5,924	6,466	(542)	-8%
General and administrative	12,189	9,792	2,397	24%
Total operating expenses	$ 22,705	$ 20,013	$ 2,692	13%

Research and development. Our research and development expenses increased primarily due to an increase of $1.4 million in engineering and prototype expenses, partially offset by a $0.6 million decrease in stock-based compensation. We expect to continue to increase our research and development expenses to support our anticipated growth in consumer electronics projects and initiatives, primarily for additional personnel, consultants and prototype and materials costs, as well as for continued investment in our cinema business.

Selling and marketing. Our selling and marketing expenses decreased primarily due to lower spending of $0.3 million in sales and marketing initiatives, $0.1 million in marketing costs related to *Madam Butterfly in 3D* in the three months ended September 21, 2012 as compared to marketing costs related to *Carmen in 3D* in the three months ended September 23, 2011, both of which we co-produced with London s Royal Opera House, $0.2 million in outside service costs, $0.1 million in professional fees, partially offset by an increase of $0.2 million in personnel costs as we increased the number of selling and marketing employees to 31 at September 21, 2012 from 28 at September 23, 2011. We expect to incur additional selling and marketing expenses as we increase our international marketing efforts, particularly in Asia, Latin America and Russia, as we build our consumer electronics business worldwide and market future 3D films.

General and administrative. Our general and administrative expenses increased primarily due to a $1.3 million increase in personnel costs, $0.6 million in professional and consultant fees, $0.7 million in bad debt expense, $0.2 million in depreciation expense, $0.2 million in insurance and $0.1 million in outside services costs. The increase in personnel costs includes an increase of $0.5 million in share-based compensation expense,

$0.3 million in salaries and benefits expense and $0.6 million in bonus expense as we increased the number of general and administrative employees to 43 at September 21, 2012 from 36 at September 23, 2011 to support our operations, including the requirements of being a public company. These increases were partially offset by decrease of $0.7 million in sales and use tax expense to $1.3 million for the three months ended September 21, 2012 as compared to $2.0 million for the three months ended September 23, 2011. Property tax expense remained at $0.3 million for both the three months ended September 21, 2012 and September 23, 2011.

We expect to continue to incur additional general and administrative expenses as we continue to invest in our business to grow sales and develop new products and support the related increasing employee headcount.

Other

Interest expense, net. Net interest expense was $0.3 million for both the three months ended September 21, 2012 and September 23, 2011.

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Income tax. Our income tax expense (benefit) for the three months ended September 21, 2012 was $(1.1) million compared to $4.2 million for the three months ended September 23, 2011, primarily due to a pretax loss generated in the three months ended September 21, 2012 versus pretax income generated in the three months ended September 23, 2011. For the three months ended September 21, 2012, we used the actual effective year-to-date tax rate to calculate the interim effective tax rate for the U.S. jurisdiction, as a reliable estimate of the annual effective tax rate could not be made. For the three months ended September 23, 2011, the tax rate at the end of the period was calculated using an estimate of the annual effective tax rate expected to be applicable for the full fiscal year.

We have net operating losses that may potentially offset taxable income in the future. We expect to incur an increasing amount of income tax expenses that relate primarily to federal and state income tax and international operations. We file federal income tax returns and income tax returns in various state and foreign jurisdictions. Due to the net operating loss carryforwards, our United States federal and state returns are open to examination by the Internal Revenue Service and state jurisdictions for all years since inception.

Six months ended September 21, 2012 compared to six months ended September 23, 2011

Revenue

(in thousands)	Six months ended September 21, 2012	Six months ended September 23, 2011	Amount change	Percentage change
Revenue:				
License revenue	$ 76,165	$ 87,692	$ (11,527)	-13%
Product and other	46,999	59,863	(12,864)	-21%
Total revenue	$ 123,164	$ 147,555	$ (24,391)	-17%

The decrease in net revenue recorded during the six months ended September 21, 2012 compared to the six months ended September 23, 2011 was primarily due to a decrease in net license revenues resulting from a decrease in box office performance, lower domestic eyewear usage and lower international eyewear sales. Our international markets comprised approximately 50% of gross revenue for the six months ended September 21, 2012 as compared to 51% for the six months ended September 23, 2011. The decrease in net revenues attributable to international markets was driven by both a decrease in box office performance and purchases of RealD eyewear.

For the six months ended September 21, 2012, there were 13 motion pictures that contributed greater than $1.0 million of admission-based fees to net license revenue. The top ten motion pictures that contributed greater than $1.0 million of admission-based fees to net license revenue for the six months ended September 21, 2012 included the following: *The Avengers* ($13.8 million), *Ice Age: Continental Drift* ($6.8 million), *The Amazing Spider-Man* ($6.3 million), *Madagascar 3: Europe s Most Wanted* ($4.8 million), *Men in Black III* ($4.6 million), *Brave* ($3.9 million), *Titanic (re-release)* ($3.8 million), *Prometheus* ($3.5 million), *Wrath of the Titans* ($3.2 million) and *Dr. Seuss The Lorax* ($1.6 million).

For the six months ended September 23, 2011, there were 12 motion pictures which contributed greater than $1.0 million of admission-based fees to net license revenue. The top ten motion pictures that contributed greater than $1.0 million of admission-based fees to net license revenue for the six months ended September 23, 2011 included the following: *Transformers: Dark of the Moon* ($10.9 million), *Harry Potter and the Deathly Hallows Part 2* ($10.3 million), *Pirates of the Caribbean: On Stranger Tides* ($9.0 million), *Thor* ($5.8 million), *Kung Fu Panda 2*

($5.4 million), *Rio* ($5.3 million), *Cars 2* ($4.5 million), *The Smurfs* ($4.1 million), *Captain America: The First Avenger* ($3.3 million) and *Green Lantern* ($2.6 million).

Net license revenues comprised 62% and 59% of total revenues for the six months ended September 21, 2012 and September 23, 2011, respectively. International license revenues comprised 59% of gross license revenues in the six months ended September 21, 2012 as compared to 57% for the six months ended September 23, 2011.

The decrease in our net product and other revenue in the six months ended September 21, 2012 as compared to the six months ended September 23, 2011, was primarily a result of a decrease in the volume of RealD eyewear sold to our domestic and international markets. The decrease in RealD eyewear volume internationally compared to the prior period resulted from a growing trend among consumers to reuse RealD eyewear for multiple viewings, as well as exhibitor buying patterns relative to the film slate and purchases by certain international exhibitors from alternative suppliers, including authorized resellers of RealD eyewear. International product revenues comprised 37% of total product revenues in the six months ended September 21, 2012 as compared to 42% for the six months ended September 23, 2011. International product and other revenues were 39% and 50% of international license revenue for the six months ended September 21, 2012 and September 23, 2011, respectively.

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Cost of Revenue

(in thousands)	Six months ended September 21, 2012	September 23, 2011	Amount change	Percentage change
Revenue	$ 123,164	$ 147,555	$ (24,391)	-17%
Cost of revenue:				
License	24,296	21,119	3,177	15%
Product and other	49,869	48,595	1,274	3%
Total cost of revenue	$ 74,165	$ 69,714	$ 4,451	6%
Gross profit	$ 48,999	$ 77,841	$ (28,842)	(37%)
Gross margin	40%	53%		

For the six months ended September 21, 2012, our cost of revenue increased primarily due to the costs associated with the growth and maintenance of our global installed base as well as a reduction in the product mix of lower cost recycled eyewear in our domestic markets and $0.5 million related to the impairment of eyewear tooling equipment. Cost of revenue increased, as a percentage of revenue, to 60% for the six months ended September 21, 2012, as compared to 47% for the six months ended September 23, 2011 due to a reduction in license revenues as well as costs associated with the growth and maintenance of our global installed base as well as a reduction in the product mix of lower cost recycled eyewear. The percentage of usage of recycled eyewear may continue to decrease in future periods resulting in lower gross profit and gross margin.

License cost of revenue increased $3.2 million year-over-year primarily as a result of a $2.2 million increase in depreciation expense, $2.9 million in field support and other costs, partially offset by a decrease of $1.9 million in impairment expense. Included in license cost of sales for the six months ended September 21, 2012 and September 23, 2011 is depreciation expense of $14.1 million and $11.8 million, respectively. Depreciation expense as a percentage of gross license revenue increased to 18% for the six months ended September 21, 2012 from 13% for the six months ended September 23, 2011.

During the six months ended September 21, 2012, we determined that a non-cancelable purchase commitment for certain cinema systems configurations in the aggregate amount of $3.5 million were not fully recoverable, primarily due to the initial investment costs which are expected to exceed the anticipated future cash flows for the related cinema systems. For the three months ended September 21, 2012, impairment charged to cost of revenue for the related outstanding purchase commitment totaled $3.5 million.

During the six months ended September 23, 2011, we determined that certain of our cinema systems were not recoverable and that the carrying value of the assets exceeded fair value, primarily due to the number of certain of our cinema system assets on hand, including related outstanding purchase commitments and the continuing shift in the mix in the deployment of cinema systems based on the type of digital projectors installed and theater configuration. The fair value was primarily determined by evaluating the future cash flows expected to be generated from the cinema systems. For the three months ended September 23, 2011, impairment charged to cost of revenue for certain of the cinema systems including related outstanding purchase commitments totaled $6.8 million.

Product and other gross profit decreased $14.1 million year-over-year, primarily as a result of the reduced percentage of lower cost recycled eyewear in the total product mix and a reduction of average eyewear revenue per unit sold. Product and other gross margin decreased to (6%) for the six months ended September 21, 2012 as compared to 19% for the six months ended September 23, 2011.

Costs associated with our eyewear recycling program have been expensed in the period incurred. Recycling costs totaled $4.3 million for the six months ended September 21, 2012 and $3.9 million for the six months ended September 23, 2011, and included the cost to transport RealD eyewear between theaters and the recycling production facility and costs to process the RealD eyewear for reuse.

Our cost of revenue as a percentage of net revenue, as well as our gross profit and gross margin, will be affected in the future by the relative mix of net license and net product revenue, the mix of domestic and international product revenues, the relative mix of products and any new revenue sources, impairment charges and the percentage of usage of recycled eyewear. Impairment charges in future periods may increase as a result of system upgrades and replacements as well as changes in product offerings and new technology. As the number of RealD-enabled screens and the number of 3D motion pictures and attendance increase, our total cost of revenue may continue to increase.

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Operating Expenses

	Six months ended			
(in thousands)	**September 21, 2012**	**September 23, 2011**	**Amount change**	**Percentage change**
Research and development	$ 9,490	$ 8,400	$ 1,090	13%
Selling and marketing	12,819	13,695	(876)	-6%
General and administrative	23,451	18,222	5,229	29%
Total operating expenses	$ 45,760	$ 40,317	$ 5,443	14%

Research and development. Our research and development expenses increased primarily due to a $1.5 million increase in engineering and prototype expenses and $0.1 million in consultant fees, partially offset by a $0.6 million decrease in stock based compensation. We expect to continue to increase our research and development expenses to support our anticipated growth in consumer electronics projects and initiatives, primarily for additional personnel, consultants and prototype and materials costs, as well as for continued investment in our cinema business.

Selling and marketing. Our selling and marketing expenses decreased primarily due to decreases of $0.3 million of selling and marketing costs related to *Madam Butterfly in 3D* in the six months ended September 21, 2012 as compared to marketing costs related to *Carmen in 3D* in the six months ended September 23, 2011, both of which we co-produced with London s Royal Opera House, $0.3 million in marketing initiatives, $0.2 million in promotion expenses, $0.3 million in professional and $0.3 million in outside services fees. These decreases were partially offset by an increase of $0.5 million in occupancy costs as to support the growth in our operations. We expect to incur additional selling and marketing expenses as we increase our international marketing efforts, particularly in Asia, Latin America and Russia, and as we build our consumer electronics business worldwide and market future 3D films.

General and administrative. Our general and administrative expenses increased primarily due to increases of $1.4 million in stock based compensation, $0.7 million in personnel costs, $1.9 million in bad debt expense, $1.5 million in professional and outside services fees, including legal expenses, $0.4 million in depreciation expense, $0.3 million in travel and entertainment and $0.3 million in occupancy costs to support the growth in our operations. The increase in personnel costs includes increases of $0.5 million in salaries and benefits expense and $0.2 million in bonus expense as we increased the number of general and administrative employees to 43 at September 21, 2012 from 36 at September 23, 2011 to support our overall growth, including the requirements of being a public company. Sales and use tax expense decreased $1.3 million to $2.2 million for the six months ended September 21, 2012 as compared to $3.5 million for the six months ended September 23, 2011 primarily due to the decrease of domestic revenue. The decrease of $1.3 million of sales and use tax was primarily due to a decrease of U.S. revenue during the period. Property tax was $0.6 million and $0.8 million for the six months ended September 21, 2012 and September 23, 2011, respectively.

Other

Interest expense, net. Net interest expense for the six months ended September 21, 2012 and September 23, 2011 was $0.6 million and $0.5 million, respectively. The decrease was primarily due to interest rates related to the borrowings under our Credit Agreement and reduction in the outstanding amounts of our notes payable.

Income tax. Our income tax expense for the six months ended September 21, 2012 was $3.5 million compared to $9.4 million for the six months ended September 23, 2011, primarily due to differences in net income, and the effective tax rate estimate used. For the six months ended September 21, 2012, we used the actual effective year-to-date tax rate to calculate the interim effective tax rate for the U.S. jurisdiction, as a reliable estimate of the annual effective tax rate could not be made. For the six months ended September 23, 2011, the tax rate at the end of the period was calculated using an estimate of the annual effective tax rate expected to be applicable for the full fiscal year.

We have net operating losses that may potentially offset taxable income in the future. We expect to incur an increasing amount of income tax expenses that relate primarily to federal and state income tax and international operations. We file federal income tax returns and income tax returns in various state and foreign jurisdictions. Due to the net operating loss carryforwards, our United States federal and state returns are open to examination by the Internal Revenue Service and state jurisdictions for all years since inception.

Seasonality and quarterly performance

Our operations are generally subject to seasonal trends based on the number of 3D motion pictures released and the box office of those 3D motion pictures. As is the case with other participants in the motion picture exhibition industry, we expect that our fiscal quarters during the summer period generally will tend to show stronger box office performance and higher revenues due to the summer movie-going season, when many of the largest grossing films in any given year are typically released. By comparison the quarter ending in March traditionally does not benefit from the same box office performance due to the number and nature of the motion pictures released in this seasonal period. We expect to experience seasonal fluctuations in results of operations as a result of

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these trends. Our quarterly financial results have fluctuated in the past and may continue to fluctuate in the future based on a number of other factors in addition to these seasonal trends, many of which are beyond our control. Factors that may cause our operating results to vary or fluctuate include those discussed in Part II, Item 1A below under the caption Risk factors.

Liquidity and capital resources

Since our inception and through September 21, 2012, we have financed our operations through the proceeds we received in connection with our IPO, the sale of redeemable convertible preferred stock, borrowings under our previous credit facility agreement and our current Credit Agreement with City National and through the net cash provided by operating activities. Our cash flow from operating activities has historically been significantly impacted by the contractual payment terms and patterns related to the license of our RealD Cinema Systems and use and sale of our RealD eyewear, as well as significant investments in research, development, selling and marketing activities and corporate infrastructure.

Cash provided by operating activities is expected to be a primary recurring source of funds in future periods and will be driven by our expected revenue generated from the 3D motion pictures exhibited on our RealD Cinema Systems and an increase in the number of RealD-enabled screens, partially offset by an increase in working capital requirements associated with installing new RealD Cinema Systems, logistics and recycling costs for our RealD eyewear. Depending on our operating performance in any given period and the installation rate of additional RealD Cinema Systems, including system upgrades and replacements, changes in product offerings and new technology, we expect to supplement our liquidity needs primarily with borrowings under our Credit Agreement described below.

On April 19, 2012, we entered into a credit agreement (the Credit Agreement) with City National Bank, a national banking association (City National). Pursuant to the Credit Agreement, the lenders thereunder will make available to us:

- a revolving credit facility (including a letter of credit sub-facility) in a maximum amount not to exceed $75 million (the Revolving Facility); and

- a delayed-draw term loan facility in a maximum amount not to exceed $50 million (the Term Loan Facility).

The Revolving Facility and the Term Loan Facility replaced existing revolving and term loan facilities provided under our pre-existing credit and security agreement with City National, which had been most recently amended on December 6, 2011.

We intended to borrow additional amounts under our Credit Agreement facility to fund various growth initiatives, potentially including accelerated research and product development, acquisitions, capital expenditures and stock repurchases. We expect that we will maintain a significant amount of indebtedness on an ongoing basis. Our obligations under our Credit Agreement are secured by a first priority security interest in substantially all of our tangible and intangible assets and are fully and unconditionally guaranteed by our subsidiaries, ColorLink Inc., a Delaware corporate (ColorLink), and Stereographics Corporation, a California corporation (Stereographics). In connection with our execution of the Credit Agreement, on April 19, 2012, each of ColorLink and Stereographics entered into a general continuing guaranty (the Guaranty) in favor of City National and the lenders under the Credit Agreement, pursuant to which they irrevocably and unconditionally guaranteed our obligations under the Credit Agreement and all related loan documents. In addition, on April 19, 2012, we, ColorLink and Stereographics entered into a security agreement in favor of City National and the lenders under the Credit Agreement, pursuant to which they granted a security interest in substantially all of their assets to secure their obligations under the Credit Agreement, the Guaranty and the related loan documents.

The Revolving Facility matures on April 17, 2015, and the Term Loan Facility matures the last day of the twelfth (12th) full fiscal quarter after the earlier of October 18, 2013 or the date that aggregate term loan commitments have been drawn in full, which maturity dates may, in each case, be accelerated in certain circumstances.

The Revolving Facility provides for, at our option, Eurodollar Rate Loans, which bears interest at the London Interbank Offered Rate (LIBOR) plus two and one-half percent (2.50%) or Base Rate Loans, which bear interest at the greatest of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the Prime Rate, and (c) the Eurodollar Rate for a one month Interest Period on such day plus 1.00%, plus one and one-half percent (1.5%).

Under the Credit Agreement, our business will be subject to certain limitations, including limitations on our ability to incur additional debt, make certain investments or acquisitions, enter into certain merger and consolidation transactions, and sell our assets other than in the ordinary course of business. We will also be required to maintain compliance with certain financial covenants, including a minimum fixed charge coverage ratio and a maximum leverage ratio. As of September 21, 2012, we were in compliance with all financial covenants in the Credit Agreement. If we fail to comply with any of the covenants or if any other event of default, as defined in the Credit Agreement, should occur, the bank lenders could elect to prevent us from borrowing and declare the indebtedness to be immediately due and payable.

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As of September 21, 2012, our primary sources of liquidity were our cash and cash equivalents of $25.2 million and funds available to be borrowed under the Credit Agreement consisting of the Revolving Facility of up to $75.0 million and the Term Loan Facility of $37.5 million, of which $100.0 million was available for borrowing.

Our cash equivalents primarily consist of money market funds and other marketable securities that mature within three months from the date of purchase. The carrying amount of cash equivalents reasonably approximates fair value due to the short maturities of these instruments. The primary objective of our investment activities is preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk. We do not enter into investments for trading or speculative purposes.

We believe that our cash, cash equivalents, potential cash flows from operations, and our availability under our Credit Agreement will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months.

The following table sets forth our major sources and (uses) of cash for each period as set forth below.

	Six months ended	
(in thousands)	**September 21, 2012**	**September 23, 2011**
Operating activities	$ 50,619	$ 28,142
Investing activities	(10,456)	(36,005)
Financing activities	$ (39,819)	$ 23,442

Cash flow from operating activities

Net cash inflows from operating activities during the six months ended September 21, 2012 primarily resulted from a decrease in inventories and decreases in accounts payable and accrued expenses. The decrease in inventories is primarily due to the decreased volume of inventory purchases and usage of existing inventories. Decreases in accounts payable and accrued expenses were related to timing of payments due to the increased cash flow from operations.

Net cash inflows from operating activities during the six months ended September 23, 2011 primarily resulted from net income, partially offset by decreases in accounts payable and accrued expenses. Decrease in accounts payable and accrued expenses were related to timing of payments due to increased cash flow from operations.

Cash flow from investing activities and capital resources

For both the six months ended September 21, 2012 and September 23, 2011, cash outflow for investing activities was primarily related to the establishment of our initial infrastructure and for the purchase of component parts for our RealD Cinema Systems, digital projectors, and other property, equipment and leasehold improvements. In the six months ended September 21, 2012 and September 23, 2011, we received proceeds of $2.5 million and $4.0 million, respectively, as a result of the sale of digital projectors to certain of our motion picture exhibitors. Capital expenditures were $12.9 million for the six months ended September 21, 2012 and $40.0 million for the six months ended September 23, 2011. In the future, we will continue to invest in our business to grow sales and develop new products and support the related increasing employee headcount.

Cash flow from financing activities

Net cash outflows from financing activities for the six months ended September 21, 2012 resulted primarily from $25.0 million of repayments on our prior revolving and term loan facility, $12.5 million of repayments on the Credit Agreement, $26.2 million in purchases of treasury stock, $1.2 million in payments of debt issuance costs and $1.0 million in distributions to a noncontrolling interest. These outflows were partially offset by $25.0 million in proceeds from the Credit Agreement.

Net cash outflows from financing activities for the six months ended September 23, 2011 primarily resulted from $30.0 million in proceeds from our prior revolving and term loan facility, partially offset by $5.0 million in repayments on our prior revolving and term loan facility.

On April 19, 2012, we entered into a Credit Agreement with City National to provide us with a Revolving Facility in a maximum amount not to exceed $75 million and a Term Loan Facility in a maximum amount not to exceed $50 million.

The Revolving Facility and the Term Loan Facility replaced existing revolving and term loan facilities provided under our pre-existing credit and security agreement with City National, which had been most recently amended on December 6, 2011.

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Debt issuance costs related to the completion of the Credit Agreement totaled $1.2 million and were recorded as a deferred charge and amortized over the contractual life of the agreement recorded as interest expense.

We intend to borrow additional amounts under the Credit Agreement to fund various growth initiatives, including potential accelerated research and product development, acquisitions, capital expenditures and stock repurchases. We expect that we will maintain a significant amount of indebtedness on an ongoing basis. Our obligations under the Credit Agreement are secured by a first priority security interest in substantially all of our tangible and intangible assets and are fully and unconditionally guaranteed by our subsidiaries, ColorLink, Inc. and Stereographics Corporation.

Our Revolving Facility matures on April 17, 2015, and the Term Loan Facility matures the last day of the twelfth (12th) full fiscal quarter after the earlier of October 18, 2013 or the date that aggregate term loan commitments have been drawn in full, which maturity dates may, in each case, be accelerated in certain circumstances.

Under the Credit Agreement, our business is subject to certain limitations, including limitations on our ability to incur additional debt, make certain investments or acquisitions, enter into certain merger and consolidation transactions, and sell our assets other than in the ordinary course of business. We will also be required to maintain compliance with certain financial covenants, including a minimum fixed charge coverage ratio and a maximum leverage ratio. As of September 21, 2012, we were in compliance with all financial covenants in the Credit Agreement. If we fail to comply with any of the covenants or if any other event of default, as defined in the Credit Agreement, should occur, the bank could elect to prevent us from borrowing and declare the indebtedness to be immediately due and payable.

As of September 21, 2012, there was $12.5 outstanding under the Credit Agreement and $100.0 million available to borrow under the Credit Agreement. In the future, we may continue to utilize commercial financing, lines of credit and term loans for general corporate purposes, stock repurchases, including investing in technology.

For the six months ended September 21, 2012 and September 23, 2011, proceeds from employee stock option exercises and employee stock plan purchases were $1.1 million and $0.5 million, respectively. For the six months ended September 23, 2011 and proceeds from the exercise of warrants in our common stock was $0.3 million. From time to time, we expect to receive cash from the exercise of employee stock options and warrants in our common stock. Proceeds from the exercise of employee stock options and warrants outstanding will vary from period to period based upon, among other factors, fluctuations in the market value of our common stock relative to the exercise price of such stock options and warrants.

On April 20, 2012, we announced that our board of directors had approved an authorization to repurchase up to $50 million of RealD common stock. The number of shares to be repurchased and the timing of any potential repurchases will depend on factors such as the Company s stock price, economic and market conditions, alternative uses of capital, and corporate and regulatory requirements. Repurchases of common stock may be made under a Rule 10b5-1 plan, which would permit common stock to be repurchased when RealD might otherwise be precluded from doing so under insider trading laws, and a variety of other methods, including open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, or by any combination of such methods. The repurchase program may be suspended or discontinued at any time.

Pursuant to the stock repurchase plan authorized by our board of directors on April 20, 2012, we repurchased a total of 2,560,148 shares of common stock for an aggregate cost, including sales commissions, of $26.2 million during the six months ended September 21, 2012.

Off-balance sheet arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships. We enter into guarantees in the ordinary course of business related to the guarantee of our own performance and the performance of our subsidiaries.

Non-U.S. GAAP discussion

In addition to our U.S. GAAP results, we present Adjusted EBITDA as a supplemental measure of our performance. However, Adjusted EBITDA is not a recognized measurement under U.S. GAAP. We define Adjusted EBITDA as net income (loss), plus net interest expense, income and other taxes, depreciation and amortization and share-based compensation expense as further adjusted to eliminate the impact of certain items that we do not consider indicative of our core operating performance. Management considers our core operating performance to be that which can be affected by our managers in any particular period through their management of the resources that affect our underlying revenue and profit generating operations that period. Non-U.S. GAAP adjustments to our results

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prepared in accordance with U.S. GAAP are itemized below. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

Set forth below is a reconciliation of Adjusted EBITDA to net income for the three and six months ended September 21, 2012 and September 23, 2011:

	Three months ended		**Six months ended**	
(in thousands)	**September 21, 2012**	**September 23, 2011**	**September 21, 2012**	**September 23, 2011**
Net income (loss)	$ (4,231)	$ 19,177	$ (1,284)	$ 28,579
Add (deduct):				
Interest expense, net	288	272	601	483
Income tax expense (benefit)	(1,129)	4,159	3,548	9,411
Depreciation and amortization	8,086	7,054	15,936	13,152
Other (income) loss (1)	21	(1,099)	374	(949)
Share-based compensation expense (2)	4,812	4,733	9,094	7,632
Impairment of assets and intangibles (3)	4,327	7,710	5,901	7,828
Sales and use tax (4)	1,309	2,017	2,162	3,507
Property tax (5)	291	330	611	766
Adjusted EBITDA	$ 13,774	$ 44,353	$ 36,943	$ 70,409

(1) Includes gains and losses from foreign currency exchange and foreign currency forward contracts.

(2) Represents share-based compensation expense of nonstatutory and incentive stock options and restricted stock units and employee stock purchases plan expenses to employees, non-employees, officers and directors.

(3) Represents impairment of long-lived assets, such as fixed assets, theatrical equipment and related purchase commitments and identifiable intangibles.

(4) Represents taxes incurred by us for cinema license and product revenue.

(5) Represents property taxes on RealD Cinema Systems and digital projectors.

We present Adjusted EBITDA because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use Adjusted EBITDA in developing our internal budgets, forecasts and strategic plan, in analyzing the effectiveness of our business strategies in evaluating potential acquisitions; in making compensation decisions and in communications with our board of directors concerning our financial performance. Adjusted EBITDA has limitations as an analytical tool which includes, among others, the following:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;

- non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period;

- Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations;

- Adjusted EBITDA also differs from the amounts calculated under the similarly titled definition in our Credit Agreement, which is further adjusted to reflect certain other cash and non-cash charges and is used to determine compliance with financial covenants and our ability to engage in certain activities, such as incurring additional debt and making certain restricted payments; and

- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with U.S. GAAP. We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA only as a supplement. Our consolidated financial statements and the notes to those statements included elsewhere are prepared in accordance with U.S. GAAP. See also Part I, Item 2: Management s discussion and analysis of financial condition and results of operations Non-U.S. GAAP discussion and Seasonality and quarterly performance.

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Critical accounting policies and estimates

This discussion is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, estimates and judgments are evaluated, including those related to revenue recognition, revenue deductions, product returns, fair value of our common stock, share-based compensation, inventories, definite lived asset impairments, goodwill impairment and income taxes. These estimates and judgments are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, which form the basis for our judgments about the carrying values of assets and liabilities not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from these estimates.

We believe the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

Revenue recognition

We derive substantially all of our revenue from the license of our RealD Cinema Systems and the product sale of our RealD eyewear. We evaluate revenue recognition for transactions using the criteria set forth by the SEC in Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104) and Accounting Standards Codification Topic 605, *Revenue Recognition* (ASC 605). The revenue recognition guidance states that revenue is recognized when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller s price to the buyer is fixed or determinable and collectability is reasonably assured.

License revenue. License revenue is accounted for as an operating lease. License revenue is primarily derived under a per-admission, periodic fixed fee, or per-motion picture basis with motion picture exhibitors. Amounts received up front, less estimated allowances, are deferred and recognized over the lease term using the straight-line method. Additional lease payments that are contingent upon future events outside our control, including those related to admission and usage, are recognized as revenues when the contingency is resolved and we have no more obligations to our customers specific to the contingent payment received. Certain of our license revenue from leasing our RealD Cinema Systems is earned upon admission by the motion picture exhibitor s consumers. Our licensees, however, do not report and pay for such license revenue until after the admission has occurred, which may be received subsequent to our fiscal period end. We estimate and record licensing revenue related to motion picture exhibitor consumer admissions in the quarter in which the admission occurs, but only when reasonable estimates of such amounts can be made. We determine that there is persuasive evidence of an arrangement upon the execution of a license agreement or upon the receipt of a licensee s admissions report. Revenue is deemed fixed or determinable upon receipt of a licensee s admissions report. We determine collectability based on an evaluation of the licensee s recent payment history.

Product revenue. We recognize product revenue, net of allowances, when title and risk of loss have passed and when there is persuasive evidence of an arrangement, the payment is fixed or determinable, and collectability of payment is reasonably assured. In the United States and Canada, certain of our product revenue from the sale of our RealD eyewear is earned upon admission and usage by the motion picture exhibitor s consumers. Our customers, however, do not report admission or usage information until after the admission and usage has occurred, and such information may be received subsequent to our fiscal period end. We estimate and record such product revenue in the quarter in which the admission and usage occurs, but only when reasonable estimates of such amounts can be made.

Share-based compensation

We account for share-based awards granted to employees and directors by recording compensation expense based on estimated fair values. We estimate the fair value of share-based payment awards on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statements of operations. Share-based awards are attributed to expense using the straight-line method over the vesting period. We determine the value of each option award that contains a market condition using a lattice-based option valuation model, while all other option awards are valued using the Black-Scholes valuation model as permitted under ASC 718, *Compensation Stock Compensation*. The assumptions used in calculating the fair value of share-based payment awards represent our best estimates. Our estimates of the fair values of share-based awards granted and the resulting amounts of share-based compensation recognized may be impacted by certain variables including stock price volatility, employee stock option exercise behaviors, additional stock option grants, modifications, estimates of forfeitures, and the related income tax impact.

Share-based compensation expense for the three and six months ended September 21, 2012 and September 23, 2011 was as follows:

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	Three months ended		Six months ended	
(in thousands)	September 21, 2012	September 23, 2011	September 21, 2012	September 23, 2011
Share-based compensation				
Cost of revenue	$ 267	$ 133	$ 444	$ 198
Research and development	538	1,174	968	1,571
Selling and marketing	1,362	1,313	2,699	2,224
General and administrative	2,645	2,113	4,983	3,639
Total	$ 4,812	$ 4,733	$ 9,094	$ 7,632

Stock options granted generally vest over a four-year period, with 25% of the shares vesting after one year and monthly vesting thereafter. The options generally expire ten years from the date of grant. For the six months ended September 21, 2012, we granted 1.8 million stock options at a weighted average grant date fair value of $6.26 per share. For the three months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to stock options and our employee stock purchase plan was $3.6 million and $3.9 million, respectively. For the six months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to stock options and our employee stock purchase plan was $7.0 million and $6.0 million, respectively.

For purposes of determining the expected term and in the absence of historical data relating to stock option exercises, we apply a simplified approach: the expected term of awards granted is presumed to be the mid-point between the vesting date and the end of the contractual term. We use the average volatility of similar, publicly traded companies as an estimate for expected volatility. The risk-free interest rate for periods within the expected or contractual life of the option, as applicable, is based on the United States Treasury yield curve in effect during the period the options were granted. Our expected dividend yield is zero.

Certain of our management-level employees receive performance stock options, which gives the recipient the right to receive common stock that is contingent upon achievement of specified pre-established performance goals over the performance period, which is generally three years. The performance goals for the performance stock options are based on the measurement of our total shareholder return, on a percentile basis, compared to a comparable group of companies. Depending on the outcome of the performance goals, the recipient may ultimately earn performance stock options equal to or less than the number of performance stock options granted. For the three months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to performance stock options was $0.5 million and $0.3 million, respectively. For the six months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to performance stock options was $0.9 million and $0.8 million, respectively.

The lattice-based option valuation model uses terms based on the length of the performance period and compound annual growth rate goals for total stockholder return based on the provisions of the award. For purposes of determining the expected term and in the absence of historical data relating to stock option exercises, we apply a simplified approach: the expected term of awards granted is presumed to be the mid-point between the vesting date and the end of the contractual term. We use the average volatility of a peer group of companies as an estimate for expected volatility. The risk-free interest rate for periods within the expected or contractual life of the option, as applicable, is based on the United States Treasury yield curve in effect during the period the options were granted.

Restricted stock units vest over one to four years. For the six months ended September 21, 2012, we granted 0.2 million restricted stock units at a weighted average grant date fair value of $10.47 per restricted stock unit. For the three months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to restricted stock units was $0.7 million and $0.5 million, respectively. For the six months ended September 21, 2012 and September 23, 2011, share-based compensation expense related to restricted stock units was $1.2 million and $0.8 million, respectively.

Inventories

Domestically, we provide our RealD eyewear free of charge to motion picture exhibitors and then receive a fee from the motion picture studios for the usage of that RealD eyewear by the motion picture exhibitors consumers.

For RealD eyewear located at a motion picture exhibitor, we believe that it is not operationally practical to perform physical counts or request the motion picture exhibitor to perform physical counts and confirm quantities held to ensure that losses due to damage, destruction, and shrinkage are specifically recognized in the period incurred due to the number of domestic RealD-enabled screens and related usage of RealD eyewear. We believe that the cost to monitor shrinkage or usage significantly outweighs the financial reporting benefits of using a specific identification methodology of expensing. We believe that utilizing a composite method of expensing RealD eyewear inventory costs provides a rational and reasonable approach to ensuring that shrinkage is provided for in the period incurred and that inventory costs are expensed in the periods that reasonably reflect the periods in which the related revenue

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is recognized. In doing so, we believe the following methodology reasonably and generally reflects periodic income or loss under these facts and circumstances:

- For an estimated period of time following shipment to domestic motion picture exhibitors, no expense is recognized between the time of shipment and until the delivery is made as the inventory unit is in transit and unused.

- The inventory unit cost is expensed on a straight-line basis over an estimated usage period beginning when we believe usage of the inventory unit has started. In estimating the expensing start date and related expense period, we consider various factors including, but not limited to, those relating to a 3D motion picture s opening release date, a 3D motion picture s expected release period, the number of currently playing 3D motion pictures, the motion picture exhibitor s buying and stocking patterns and practices and the quantities shipped per inventory unit.

We believe that the expensing methodology described above rationally and reasonably approximates the period the related usage occurs resulting in our RealD eyewear product revenue. The expensing start date following the date of shipment is meant to approximate the date at which usage begins. Additionally, as the expense recognition period has been and is expected to continue to be short, we believe it adequately recognizes inventory impairments due to loss and damage on a timely basis. We further believe that exposures due to loss or damage, if any, are considered normal shrinkage and a necessary and expected cost to generate the revenue per 3D motion picture earned through RealD eyewear usage. We continue to monitor the reasonableness of this methodology to ensure that it approximates the period over which the related RealD eyewear product revenue is earned and realizable. RealD eyewear inventory costs for products shipped that have not yet been expensed are reported as deferred costs-eyewear.

Impairment of long-lived assets

We review long-lived assets, such as property and equipment, cinema systems, digital projectors and intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors or circumstances that could indicate the occurrence of such events include current period operating or cash flow losses combined with a history of operating or cash flow losses, a projection or forecast that demonstrates continuing operating or cash flow losses, or incurring costs in excess of amounts originally expected to acquire or construct an asset. If the asset is not recoverable, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value.

During the three months ended September 21, 2012, we determined that a non-cancelable purchase commitment for certain cinema systems configurations in the aggregate amount of $3.5 million was not fully recoverable, primarily due to the initial investment costs which are expected to exceed the anticipated future cash flows for the related cinema systems. For the three months ended September 21, 2012, impairment charged to cost of revenue for the related outstanding purchase commitment totaled $3.5 million.

During the three months ended September 23, 2011, we determined that certain of our cinema systems were not recoverable and that the carrying value of the assets exceeded fair value, primarily due to the number of certain of our cinema system assets on hand, including related outstanding purchase commitments and the continuing shift in the mix in the deployment of cinema systems based on the type of digital projectors installed and theater configuration. The fair value was primarily determined by evaluating the future cash flows expected to be generated from the cinema systems. For the three months ended September 23, 2011, impairment charged to cost of revenue for certain of the cinema systems including related outstanding purchase commitments totaled $6.8 million.

For the three months ended September 21, 2012 and September 23, 2011, total impairment charges for all impaired RealD Cinema Systems including related purchase commitments charged to cost of revenue totaled $4.3 million and $7.7 million, respectively. For the six months ended September 21, 2012 and September 23, 2011, total impairment charges for all impaired RealD Cinema Systems including related purchase commitments charged to cost of revenue totaled $5.9 million and $7.8 million, respectively.

Deferred tax asset valuation and tax exposures

As of September 21, 2012, we have determined based on the weight of the available evidence, both positive and negative, to provide for a valuation allowance against substantially all of the net deferred tax assets. The current deferred tax assets not reserved for by the valuation allowance are those in foreign jurisdictions or amounts that may be carried back in future years. If there is a change in circumstances that causes a change in judgment about the realizability of the deferred tax assets, we will adjust all or a portion of the applicable valuation allowance in the period when such change occurs.

We are subject to ongoing tax exposures, examinations and assessments in various jurisdictions. Accordingly, we may incur additional tax expense based upon the outcomes of such matters. In addition, when applicable, we adjust tax expense to reflect our

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ongoing assessments of such matters which require judgment and can materially increase or decrease its effective rate as well as impact operating results.

Significant judgment is required in determining the provision for income taxes, deferred tax assets and liabilities, the valuation allowance against our deferred tax assets and uncertainty in income tax positions. Our financial position and results of operations may be materially impacted if actual results significantly differ from these estimates or the estimates are adjusted in future periods.

Contingencies and assessments

We are subject to various loss contingencies and assessments arising in the course of our business, some of which relate to litigation, claims, property taxes and sales and use or goods and services tax assessments. We consider the likelihood of the loss or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss, contingencies and assessments. An estimated loss contingency or assessment is accrued when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted. Based on the information presently available, including discussion with counsel and other consultants, management believes that resolution of these matters will not have a material adverse effect on our business, consolidated results of operations, financial condition or cash flows.

Recent accounting pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, *Intangibles (Topic 350) Goodwill and Other*, which allows companies to waive comparing the fair value of a reporting unit to its carrying amount in assessing the recoverability of goodwill if, based on qualitative factors, it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. ASU 2011-08 will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*, an amendment to FASB Accounting Standards Codification (ASC) Topic 350, *Intangibles - Goodwill and Other*. The update provides an entity with the option first to assess qualitative factors in determining whether it is more likely than not that the indefinite-lived intangible asset is impaired. After assessing the qualitative factors, if an entity determines that it is not more likely than not that the indefinite-lived intangible asset is impaired, the entity is not required to take further action. If an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. The ASU is effective for our annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption was permitted. We did not early adopt the provisions of this ASU; however, we do not expect the impact of adopting this ASU to be material to our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations outside the United States. We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange and inflation risks as well as changes in the general economic conditions in the countries where we conduct business. To reduce certain of these risks, we monitor the financial condition of our large customers and limit credit exposure by collecting in advance and setting credit limits, as we deem appropriate. In addition, our investment strategy currently has been to invest in financial instruments that are highly liquid, readily convertible into cash and which mature within three months from the date of purchase. We also enter into foreign exchange derivative hedging transactions as part of our risk management program. For accounting purposes, we do not designate any of our derivative instruments as hedges and we do not use derivatives for speculating trading purposes and are not a party to leveraged derivatives.

Interest rate risk

We are exposed to market risk related to changes in interest rates.

Our investments are considered cash equivalents and primarily consist of money market funds. At September 21, 2012, we had cash and cash equivalents of $25.2 million. The carrying amount of cash equivalents reasonably approximates fair value due to the short maturities of these instruments. The primary objective of our investment activities is preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, however, we do not believe an immediate 10% increase or decrease in

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interest rates would have a material effect on the fair market value of our portfolio, and therefore, we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

We do not believe our cash equivalents have significant risk of default or illiquidity. While we believe our cash equivalents do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits. We cannot be assured that we will not experience losses on these deposits.

The revolving credit facility provides for, at our option, Eurodollar Rate Loans, which bears interest at the London Interbank Offered Rate (LIBOR) plus two and one-half percent (2.50%) or Base Rate Loans, which bear interest at the greatest of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the Prime Rate, and (c) the Eurodollar Rate for a one month Interest Period on such day plus 1.00%, plus one and one-half percent (1.5%). Changes in interest rates do not affect operating results or cash flows on our fixed rate borrowings but would impact our variable rate borrowings. At September 21, 2012, we had $12.5 million in borrowings outstanding under our Credit Agreement which bear interest at approximately 3.25%.

Foreign currency risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the United States dollar. Our historical revenue has generally been denominated in United States dollars, and a significant portion of our current revenue continues to be denominated in United States dollars; however, we expect an increasing portion of our future revenue to be denominated in currencies other than the United States dollar, primarily the Euro, British pound sterling, Canadian dollar, Latin American Currencies, Russian Ruble, Japanese yen, Chinese Yuan and Hong Kong dollar. Our operating expenses are generally denominated in the currencies of the countries in which our operations are located, primarily the United States and United Kingdom. Increases and decreases in our international revenue from movements in foreign exchange rates are partially offset by the corresponding increases or decreases in our international operating expenses. To further reduce our net exposure to foreign exchange rate fluctuations on our results of operations, we have entered into foreign currency forward contracts.

As of September 21, 2012, we had outstanding forward contracts based in British pound sterling and Euro with notional amounts totaling an aggregate of $4.1 million. We do not designate any of our forward contracts as hedges for accounting purposes. For the three and six months ended September 21, 2012, the net loss related to the change in fair value of our foreign currency forward contracts was $0.2 million and $0.1 million, respectively. For both the three and six months ended September 23, 2011, the net gain (loss) related to the change in fair value of our foreign currency forward contracts was not significant. With regard to these contracts, a hypothetical 10.0% adverse movement in foreign exchange rates compared with the U.S. dollar relative to exchange rates on September 21, 2012 would result in a $0.4 million reduction in fair value of these forward contracts and a corresponding foreign currency loss of approximately $0.7 million. This analysis does not consider the impact that hypothetical changes in foreign currency exchange rates would have on anticipated transactions and assets and liabilities that these foreign currency sensitive instruments were designed to offset.

As our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing this risk. In addition, currency fluctuations or a weakening United States dollar can increase the costs of our international expansion. As our international operations grow, we expect to conduct more of our business in currencies other than the U.S. dollar, thereby increasing risks associated with fluctuation in currency rates. Currency fluctuations or a weakening United States dollar can increase the costs of our international expansion. As our exposure to currency risks grows, we will continue to reassess our risk management.

Inflation risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increase. Our inability or failure to do so could harm our business, financial condition and results of operations.

Counterparty risk

Our financial statements, including derivatives, are subject to counterparty credit risk, which we consider as part of the overall fair value measurement. We attempt to mitigate this risk through credit monitoring procedures.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Subject to the limitations noted above, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective to meet the objective for which they were designed and operate at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 21, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal proceedings from time to time arising from the normal course of business activities, including claims of alleged infringement of intellectual property rights, commercial, employment and other matters. Our management believes that losses in excess of the amounts accrued arising from such lawsuits are remote, but that litigation is necessarily uncertain and there is the potential for a material adverse effect on our financial statements if one or more matters are resolved in a particular period in an amount in excess of that anticipated by management.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Quarterly Report on Form 10-Q should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently *deem less significant may also impair our business operations. If any of the following risks actually occur, our business, operating results and financial condition could be materially adversely affected.*

Risks relating to our business

If motion pictures that can be viewed with RealD Cinema Systems are not made or are not commercially successful, our revenue will decline.

Almost all of our revenue is currently dependent upon both the number of 3D motion pictures released and the commercial success of those 3D motion pictures. Although we have produced alternative content in 3D, such as the productions of Carmen and Madam Butterfly in 3D with London s Royal Opera House, we are not actively developing 3D motion pictures or our own 3D content, and therefore, we rely on motion picture studios producing and releasing 3D motion pictures compatible with our RealD Cinema Systems. There is no guarantee an increasing number of 3D motion pictures will be released or that motion picture studios will continue to produce 3D motion pictures at all. Motion picture studios may refrain from producing and releasing 3D motion pictures for any number of reasons, including their lack of commercial success, consumer preferences, the lower-cost to produce 2D motion pictures or the availability of other entertainment options. Additionally, motion picture studios may reschedule or drop a 3D motion picture. The commercial success of a 3D motion picture depends on a number of factors that are outside of our control, including whether it achieves critical acclaim, timing of the release, cost, marketing efforts and promotional support for the release. In the past, consumer interest in 3D motion pictures was episodic and motion picture studios tended to use 3D motion pictures as a gimmick rather than as an artistic tool to enhance the viewing experience. If consumers recent renewed interest in the 3D viewing experience fails to grow or it declines for any reason, box office performance may suffer and motion picture studios may reduce the number of 3D motion pictures they produce. Poor box office performance of 3D motion pictures, disruption or reduction in 3D motion picture

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production or conversion of 2D motion pictures into 3D motion pictures, changes in release schedules, cancellations of motion picture releases in 3D versions, a reduction in marketing efforts for 3D motion pictures by motion picture studios or a lack of consumer demand for 3D motion pictures could result in lower 3D motion picture attendance, which would substantially reduce our revenue. For example, the fact that Warner Brothers was unable to convert *Harry Potter and the Deathly Hallows: Part 1* from 2D into 3D in time for a 2010 release in 3D negatively impacted 3D motion picture attendance and, we believe, the box office for that motion picture and our revenue in the period in which that motion picture was released.

If motion picture exhibitors do not continue to use our RealD Cinema Systems or experience financial difficulties, our growth and results of operations could be adversely affected.

Our primary licensees in the motion picture industry are motion picture exhibitors. Our license agreements with motion picture exhibitors do not obligate these licensees to deploy a specific number of our RealD Cinema Systems. We cannot predict whether any of our existing motion picture exhibitor licensees will continue to perform under their license agreements with us, whether they will renew their license agreements with us at the end of their term or whether we may now or in the future be in breach of those agreements. If motion picture exhibitors reduce or eliminate the number of 3D motion pictures that are exhibited in theaters, then motion picture studios may not produce and release 3D motion pictures and our revenue could be materially and adversely affected.

In addition, license revenue from AMC, Cinemark and Regal together comprised approximately 24% of our gross license revenue in the year ended March 23, 2012, 23% in the year ended March 25, 2011 and 30% in the year ended March 26, 2010. Any inability or failure by motion picture exhibitors to pay us amounts due in a timely fashion or at all could substantially reduce our cash flow and could materially and adversely impact our financial condition and results of operations.

A deterioration in our relationships with the major motion picture studios could adversely affect our business.

The six major motion picture studios accounted for approximately 82% of domestic box office revenue and all 10 of the top 10 grossing 3D motion pictures in calendar year 2011. Such 3D motion pictures are also released internationally. In addition, for our domestic operations, these major motion picture studios pay us a per use fee for our RealD eyewear. To the extent that our relationship with any of these major motion picture studios deteriorates or any of these studios stop making motion pictures that can be viewed at RealD-enabled theater screens, refuse to co-brand with us, stop using or paying for the use of or reduce the amounts paid for our RealD eyewear in domestic markets, our costs could increase and our revenue could decline, which would adversely affect our business and results of operations. We understand that at least one motion picture studio is seeking a change to the 3D eyewear business model in North America to resemble the international model. While we support multiple business models for our RealD eyewear around the world, the uncertainty and any potential dispute with a motion picture studio over the domestic eyewear business model could adversely affect our results of operations, financial condition, business and prospects.

If motion picture exhibitors do not continue converting analog theaters to digital or the pace of conversions slows, our future prospects could be limited and our business could be adversely affected.

Our RealD Cinema Systems only work in theaters equipped with digital cinema projection systems, which enable 3D motion pictures to be delivered, stored and projected electronically, and our systems are not compatible with analog motion picture projectors. Motion picture exhibitors have been converting projectors to digital cinema over the last several years, giving us the opportunity to deploy our RealD Cinema Systems. After motion picture exhibitors convert their projectors to digital cinema, they must install a silver screen and our RealD Cinema System in order to display motion pictures in RealD 3D. The conversion by motion picture exhibitors of their projectors and screens from analog to digital cinema requires significant expense. As of December 31, 2011, approximately 65% of domestic theater screens had converted to digital and approximately 45% of the international theater screens had been converted. If the market for digital cinema develops more slowly than expected, or if the motion picture exhibitors we have agreements with delay or abandon the conversion of their theaters, our ability to grow our revenue and our business could be adversely affected. While DCIP and Cinedigm financing provided funding for the digital conversion of domestic theater screens operated by many of our licensees, there has not been a similar effort to organize digital conversion in certain geographies outside North America. If the pace of digital conversion outside of the United States does not follow that which occurred inside the United States, our revenue may not grow and our business could be adversely affected.

If the deployment of our RealD Cinema Systems is delayed or not realized, our future prospects could be limited and our business could be adversely affected.

We have license agreements with motion picture exhibitors that give us the right, subject to certain exceptions, to deploy our RealD Cinema Systems if a location under contract is already equipped with our systems and they choose to install additional 3D digital projector systems. As of March 23, 2012, we were working with our motion picture exhibitor licensees to deploy our RealD Cinema Systems on up to approximately 2,700 additional screens under our existing agreements with them. However, our license agreements do not obligate our licensees to deploy a specific number of our RealD Cinema Systems. Numerous factors beyond our control could influence when and whether our RealD Cinema Systems will be deployed, including motion picture exhibitors ability to fund capital expenditures, or their decision to delay or abandon the conversion of their theaters to digital projection or reduce the number of 3D motion pictures exhibited in their theaters, and our ability to secure adequate supplies of components comprising our RealD Cinema System in any given period. If motion picture exhibitors delay, postpone or decide not to deploy RealD Cinema Systems at the number of screens they have announced, or we are unable to deploy our RealD Cinema Systems in a timely manner, our future prospects could be limited and our business could be adversely affected.

Any inability to protect our intellectual property rights could reduce the value of our 3D technologies and brand, which could adversely affect our financial condition, results of operations and business.

Our business is dependent upon our patents, trademarks, trade secrets, copyrights and other intellectual property rights. Effective intellectual property rights protection, however, may not be available under the laws of every country in which we and our licensees operate, such as China. The efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. In addition, protecting our intellectual property rights is costly and time consuming. It may not be practicable or cost effective for us to fully protect our intellectual property rights in some countries or jurisdictions. If we are unable to successfully identify and stop unauthorized use of our intellectual property, we could lose potential revenue and experience increased operational and enforcement costs, which could adversely affect our financial condition, results of operations and business.

It is possible that some of our 3D technologies may not be protectable by patents. In addition, given the costs of obtaining patent protection, we may choose not to protect particular innovations that later turn out to be important. Even where we do have patent protection, the scope of such protection may be insufficient to prevent third parties from designing around our particular patent claims or otherwise avoiding infringement. Furthermore, there is always the possibility that an issued patent may later be found to be invalid or unenforceable, or a competitor may attempt to engineer around our issued patent. Additionally, patents only offer a limited term of protection. Moreover, the intellectual property we maintain as trade secrets could be compromised by third parties, or intentionally or accidentally by our employees, which would cause us to lose the competitive advantage resulting from them.

We may in the future be subject to intellectual property rights disputes that are costly to defend, could require us to pay damages and could limit our ability to use particular 3D technologies in the future.

We may be exposed to, or threatened with, future litigation or any other disputes by other parties alleging that our 3D technologies infringe their intellectual property rights. Any intellectual property disputes, regardless of their merit, could be time consuming, expensive to litigate or settle and could divert management resources and attention. An adverse determination in any intellectual property dispute could require us to pay damages and/or stop using our 3D technologies, trademarks, copyrighted works and other material found to be in violation of another party s rights and could prevent us from licensing our 3D technologies to others. In order to avoid these restrictions and resolve the dispute, we may have to pay for a license. This license may not be available on reasonable terms, could require us to pay significant license fees and may significantly increase our operating expenses. A license also may not be available to us at all. As a result, we may be required to use and/or develop non-infringing alternatives, which could require significant effort and expense, or which may not be possible. If we cannot obtain a license or develop alternatives for any infringing aspects of our business, we may be forced to limit our 3D technologies and may be unable to compete effectively. In certain instances, we have contractually agreed to provide indemnification to licensees relating to our intellectual property. This may require us to defend or hold harmless motion picture exhibitors, consumer electronics manufacturers or other licensees. We have from time to time corresponded with one or more third parties regarding patent enforcement issues and in-bound and out-bound patent licensing opportunities. In addition, from time to time we may be engaged in disputes regarding the licensing of our intellectual property rights, including matters related to our license fee rates and other terms of our licensing arrangements. These types of disputes can be asserted by our licensees or prospective licensees or by other third parties as part of negotiations with us or in private actions seeking monetary damages or injunctive relief or in regulatory actions. Requests for monetary and injunctive remedies asserted in claims like these could be material and could have a significant impact on our business. Any disputes with our licensees, potential licensees or other third parties could materially and adversely affect our business, results of operations and prospects.

Our RealD Cinema Systems and other technologies are generally designed for use with third-party technologies and hardware, and if we are unable to maintain the ability of our RealD Cinema Systems and other technologies to work with these third-party technologies and hardware, our business and operating results could be adversely affected.

Our RealD Cinema Systems and other technologies are generally designed for use with third-party technologies and hardware, such as Christie projectors, Doremi servers, Harkness Hall screens and Sony Electronics 4K SXRD® digital cinema projectors. Third-party technologies and hardware may be modified, re-engineered or removed altogether from the marketplace. In addition, third-party technologies used to interact with our RealD Cinema Systems, RealD Format and other 3D technologies can change without prior notice to us, which could result in increased costs or our inability to provide our 3D technologies to our licensees. If we are unable to

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maintain the ability of our RealD Cinema Systems, RealD Format and other 3D technologies to work with these third-party technologies and hardware, our business and operating results could be adversely affected.

If we are unable to maintain our brand and reputation for providing high quality 3D technologies, our business, results of operations and prospects could be materially harmed.

Our business, results of operations and prospects depend, in part, on maintaining and strengthening our brand and reputation for providing high quality 3D technologies. If problems with our 3D technologies cause motion picture exhibitors, consumer electronics manufacturers or other licensees to experience operational disruption or failure or delays in the delivery of their products and services to their customers, our brand and reputation could be diminished. Maintaining and strengthening our brand and reputation may be particularly challenging as we enter business segments in which we have limited experience, such as 3D consumer electronics. If we fail to promote and maintain our brand and reputation successfully, our business, results of operations and prospects could be materially harmed.

Competition from other providers of 3D technologies to the motion picture industry could adversely affect our business.

The motion picture industry is highly competitive, particularly among providers of 3D technologies. Our primary competitors include Dolby, Sony, IMAX, MasterImage and Xpand. In addition, other companies, including motion picture exhibitors and studios, may develop their own 3D technologies in the future. Consumers may also perceive the quality of 3D technologies delivered by some of our competitors to be equivalent or superior to our 3D technologies. In addition, some of our current or future competitors may have significantly greater financial, technical, marketing and other resources than we do or may have more experience or advantages in the business segments in which we compete that will allow them to offer lower prices or higher quality technologies, products or services. If we do not successfully compete with these providers of 3D technologies, we could lose market share and our business could be materially and adversely affected. In addition, competition could force us to decrease prices and cause our margins to decline, which could adversely affect our business. Pricing pressures in both domestic and international motion picture exhibitor markets continue, and no assurance can be given that our margins in future periods will increase.

We face potential competition from companies with greater brand recognition and resources in the consumer electronics industry.

3D consumer electronics technologies are new and rapidly developing, and we must compete with companies that enjoy competitive advantages, including:

- more developed distribution channels and deeper relationships with consumer electronics manufacturers;

- a more extensive customer base;

- technologies that may be better suited for 3D consumer electronics products;

- broader technology, product and service offerings; and

- greater resources for competitive activities, such as research and development, strategic acquisitions, alliances, joint ventures, sales and marketing, and lobbying for changes in industry and government standards.

As a result, these current and potential competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, products, technologies or standards in 3D consumer electronics.

We also face competition where existing licensees relying on our RealD Cinema Systems in the motion picture industry may become current or potential competitors in 3D consumer electronics, or vice versa. For example, Sony Pictures Entertainment, Inc., or Sony Pictures, is a major motion picture studio, but certain of its affiliates also design, manufacture and market consumer electronics products and components and are marketing 3D consumer electronics. To the extent that our other licensees choose to utilize competing 3D technologies that they have developed or in which they have an interest, rather than use our 3D technologies, our growth prospects could be adversely affected.

The introduction of new 3D technologies and changes in the way that our competitors operate could harm our business. If we fail to keep up with rapidly changing 3D technologies or the growth of new and existing opportunities, our 3D technologies could become less competitive or obsolete.

The motion picture and consumer electronics industries in general are undergoing significant changes. Due to technological advances and changing consumer tastes, numerous companies have developed, and are expected to continue to develop, new 3D

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technologies that may compete directly with or render our 3D technologies less competitive or obsolete. We believe that original equipment manufacturers may be working to develop laser-based projection technologies, which may compete with, be incompatible with or render our RealD Cinema Systems obsolete. Competitors may develop alternative 3D technologies that are more attractive to consumers, content producers and distributors, motion picture exhibitors, consumer electronics manufacturers and others, or more cost effective than our technologies, and compete with or render our 3D technologies less competitive or obsolete. As a result of this competition, we could lose market share, which could harm our business and operating results. We expect to continue to expend considerable resources on research and development in response to changes in the motion picture and consumer electronics industries. However, we may not be able to develop and effectively market new 3D technologies that adequately or competitively address the needs of these changing industries, which could have a material and adverse effect on our business, results of operations and prospects.

If our 3D technologies fail to be widely adopted by or are not compatible with the needs of our licensees, our business prospects could be limited and our operating results could be adversely affected.

Our motion picture and consumer electronics licensees depend upon our 3D technologies being compatible with a wide variety of motion picture and consumer electronics systems, products and infrastructure. We make significant efforts to design our 3D technologies to address capability, quality and cost considerations so that they either meet or, where possible, exceed the needs of our licensees in the motion picture and consumer electronics industries. To have our 3D technologies widely adopted in the motion picture and consumer electronics industries, we must convince a broad spectrum of professional organizations worldwide, as well as motion picture studios and exhibitors and consumer electronics manufacturers who are members of such organizations, to adopt them and to ensure that our 3D technologies are compatible with their systems, products and infrastructure.

If our 3D technologies are not widely adopted or retained or if we fail to conform our 3D technologies to the expectations of, or standards set by, industry participants, they may not be compatible with other products and our business, operating results and prospects could be adversely affected. We expect that meeting and maintaining the needs of our licensees for compatibility with them will be significant to our business in the future. In addition, the market for broadcast technologies has traditionally been heavily regulated by governments or other regulatory bodies, and we expect this to continue to be the case in the future. If our 3D technologies are not compatible with the broadcasting infrastructure or governmental or regulatory requirements in particular geographic areas, our ability to compete in these markets could be adversely affected.

Other forms of entertainment may be more attractive to consumers than those using our 3D technologies, which could harm our growth and operating results.

We face competition for consumer attention from other forms of entertainment that may drive down motion picture box office, license revenue from motion picture exhibitors, and license revenue from 3D-enabled consumer electronic devices. We compete with a number of alternative motion picture distribution channels, such as cable, satellite, broadcast, packaged media and the Internet. There are also other forms of entertainment competing for consumers   leisure time and disposable income such as concerts, amusement parks and sporting events. A significant increase in the popularity of these alternative motion picture channels and competing forms of entertainment could reduce the demand for theatrical exhibition of 3D motion pictures, including those viewed with our RealD Cinema Systems, or the use of 3D-enabled consumer electronics devices, any of which would have an adverse effect on our business and operating results.

Our limited operating history in 3D consumer electronics presents risk to our ability to achieve success in this area.

Our 3D technologies have only recently been made available to consumer electronics manufacturers, including JVC, Panasonic, Samsung, Sony Electronics, Toshiba and Vizio, as well as electronics component suppliers such as Broadcom, to enable 3D viewing on high definition televisions, laptops and other displays. After having jointly announced with Samsung a license agreement in May 2011 which we had expected to lead to the incorporation of our RDZ 3D display technology into LCD panels manufactured by Samsung, we subsequently learned that Samsung s initiative to manufacture panels under the license agreement with us is no longer being pursued. To date, we have not generated revenue of any material significance from our arrangements with these and other consumer electronics manufacturers. 3D consumer electronics technologies are rapidly developing, as manufacturers are working to set standards and content producers and distributors are working on increasing the availability of new 3D content. However, the demand for our 3D technologies and the income potential from 3D consumer electronics is unproven. In addition, because 3D consumer electronics technologies are new and quickly evolving, we have limited insight into trends that may emerge and affect our business. We may make errors in predicting and reacting to relevant business trends. We also may not be able to successfully address these risks on a timely basis or at all.

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If consumer electronics manufacturers limit, delay or cease their use of our 3D technologies in high definition televisions, laptops and other displays or such products are not accepted by consumers, our potential growth will be significantly reduced.

We are dependent on consumer electronics manufacturers to use our RealD Display, active and passive eyewear and RealD Format technologies with their high definition televisions, laptops and other displays, and for content distributors to deliver 3D content via cable, satellite, broadcast, packaged media and the Internet. While we have entered into agreements with some consumer electronics manufacturers regarding the use of our 3D technologies in various consumer electronics products, we can give no assurances that these consumer electronics manufacturers will utilize our 3D technologies or that there will be sufficient consumer demand for 3D electronics products. For example, Samsung is no longer pursuing its initiative to manufacture LCD panels incorporating our RDZ 3D display technology under the license agreement we jointly announced in May 2011. Since 3D consumer electronics technologies are still emerging, it is unclear if consumers will widely adopt viewing 3D content in the home and elsewhere as an attractive alternative to the 2D viewing experience. In addition, our competitors in 3D consumer electronics technologies may offer consumers superior technology or lower prices which may reduce the demand for our RealD 3D-enabled consumer electronic devices. As a result, our future prospects could be adversely affected if consumer electronics manufacturers choose not to use our 3D technologies in their devices.

Acquisition activities could result in operating difficulties, dilution to our stockholders and other harmful consequences.

We have built our business, in part, through acquisitions of intellectual property and other assets, including Stereographics in 2005 and ColorLink in 2007. We intend to selectively pursue strategic acquisitions in the future. Future acquisitions could divert management s time and focus from operating our business. In addition, integrating an acquired company, business or technology is risky and may result in unforeseen operating difficulties and expenditures. Foreign acquisitions also involve unique risks related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

We may not accurately assess the value or prospects of acquisition candidates, and the anticipated benefits from our future acquisitions may not materialize. In addition, future acquisitions or dispositions could result in potentially dilutive issuances of our equity securities, including our common stock, the incurrence of additional debt, contingent liabilities or amortization expenses, or write-offs of goodwill, any of which could materially harm our financial condition.

Our growth may place a strain on our resources, and we may continue to borrow money as our business grows.

We have experienced significant growth since we acquired ColorLink in 2007. The growth that we have experienced in the past, as well as any further growth that we experience, may place a significant strain on our resources and increase demands on our management, our information and reporting systems and our internal controls over financial reporting. Upon becoming a public company in July 2010, we began incurring additional general and administrative expenses to comply with the U.S. Securities and Exchange Commission, or SEC, reporting requirements, the listing standards of the New York Stock Exchange, or NYSE, and provisions of the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and will continue to incur additional research and development expenses. If we are unable to manage our growth effectively while maintaining appropriate internal controls, we may experience operating inefficiencies that could increase our costs or otherwise materially and adversely affect our financial position. In addition, as our business grows, we may borrow money to fund various growth initiatives, including accelerated research and product development, acquisitions, capital expenditures or stock repurchases, which will result in debt service payment obligations and will require us to comply with certain financial and operating covenants. For example, we recently entered into a Credit Agreement with City National Bank, or City National, to increase our borrowing capacity to an aggregate of $125 million. We may draw on our credit facility in order to fund growth initiatives and repurchase our common stock. In the event we breach any of the covenants under our credit agreements or are unable to pay our obligations to City National or other lenders as they become due, we may become in default under the Credit Agreement which will have a material and adverse effect on our business, results of operations and financial condition.

Our level of indebtedness reduces our financial flexibility and could impede our ability to operate.

We recently entered into a Credit Agreement with City National to provide the Company with:

- a revolving credit facility (including a letter of credit sub-facility) in a maximum amount not to exceed $75 million (the Revolving Facility); and
- a delayed-draw term loan facility in a maximum amount not to exceed $50 million (the Term Loan Facility).

The Revolving Facility and the Term Loan Facility replaced existing revolving and term loan facilities provided under our pre-existing credit and security agreement with City National, which had been most recently amended on December 6, 2011.

Our obligations under the Credit Agreement are secured by a first priority security interest in substantially all of our tangible and intangible assets and are fully and unconditionally guaranteed by our subsidiaries, ColorLink Inc., a Delaware corporation (ColorLink), and Stereographics Corporation, a California corporation (Stereographics). In connection with our execution of the

Credit Agreement, on April 19, 2012, each of ColorLink and Stereographics entered into a general continuing guaranty (the Guaranty) in favor of City National and the lenders under the Credit Agreement, pursuant to which they irrevocably and unconditionally guaranteed our obligations under the Credit Agreement and all related loan documents. In addition, on April 19, 2012, we, ColorLink and Stereographics entered into a security agreement in favor of City National and the lenders under the Credit Agreement, pursuant to which they granted a security interest in substantially all of their assets to secure their obligations under the Credit Agreement, the Guaranty and the related loan documents.

We intend to borrow additional amounts under the Credit Agreement to fund various growth initiatives, including potential accelerated research and product development, acquisitions, capital expenditures and stock repurchases. We expect that we will maintain a significant amount of indebtedness on an ongoing basis. Our Revolving Facility matures on April 17, 2015, and the Term Loan Facility matures the last day of the twelfth (12th) full fiscal quarter after the earlier of October 18, 2013 or the date that aggregate term loan commitments have been drawn in full, which maturity dates may, in each case, be accelerated in certain circumstances.

There is no assurance that we will be able to refinance our outstanding indebtedness, or if refinancing is available, that it can be obtained on terms we can afford. The capital markets have recently experienced a high degree of volatility. To the extent that volatility in the capital markets continues, our access to capital may become limited and its borrowing costs may materially increase.

The Credit Agreement requires us to pay a variable rate of interest, which will increase or decrease based on variations in certain financial indexes, and fluctuations in interest rates can significantly decrease our profits. We do not have any hedge or similar contracts that would protect us against changes in interest rates.

The amount of our indebtedness could have important consequences for you, including the following:

- requiring us to dedicate a substantial portion of our cash flow from operations to make payments on our debt, thereby reducing funds available for operations, future business opportunities and other purposes;

- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

- making it more difficult for us to satisfy our debt obligations, and any failure to comply with such obligations, including financial and other restrictive covenants, could result in an event of default under the agreements governing such indebtedness, which could lead to, among other things, an acceleration of our indebtedness or foreclosure on the assets securing our indebtedness, which could have a material adverse effect on our business or financial condition;

- limiting our ability to borrow additional funds, or to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes; and

- increasing our vulnerability to general adverse economic and industry conditions, including changes in interest rates.

Our indebtedness was $12.5 million as of September 21, 2012. We may not generate sufficient cash flow from operations to service and repay our debt and related obligations and have sufficient funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs or compete successfully in our industry, particularly if we access our increased Revolving Facility and Term Loan Facility.

Our credit facilities impose, and the terms of any future indebtedness may impose, significant operating, financial and other restrictions on us and our subsidiaries.

Restrictions imposed by the Credit Agreement will limit or prohibit, among other things, our ability to:

- incur additional debt;
- make certain investments or acquisitions;
- enter into certain merger and consolidation transactions; and
- sell our assets other than in the ordinary course of business.

We are also required to maintain compliance with certain financial covenants, including a minimum fixed charge coverage ratio and a maximum leverage ratio. If we fail to comply with any of the covenants or if any other event of default, as defined in the Credit

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Agreement, should occur, the lenders could elect to prevent us from borrowing and declare the indebtedness to be immediately due and payable.

These restrictions could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. A breach of any of these restrictions, including breach of financial covenants, could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and fees, to be immediately due and payable and proceed against any collateral securing that indebtedness, which will constitute substantially all of our assets.

We have incurred and may in the future incur asset impairment charges.

An asset impairment charge may result from the occurrence of unexpected adverse events or management decisions that impact our estimates of expected cash flows generated from our long-lived assets. We review our long-lived assets for impairment, when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. In the quarter ended September 21, 2012 we incurred asset impairment charges of $4.3 million. We may be required to recognize asset impairment charges in the future as a result of reductions in demand for specific technologies, a weak economic environment, challenging market conditions, events related to particular customers or asset type, or as a result of asset or portfolio sale decisions by management.

We face risks from doing business internationally that could harm our business, financial condition and results of operations.

We are dependent on international business for a portion of our total revenue. International gross revenue accounted for approximately 49% in fiscal 2012, 55% in fiscal 2011, and 46% in fiscal 2010. We expect that our international business will continue to represent a significant portion of our total revenue for the foreseeable future. This future revenue will depend to a large extent on the continued use and expansion of our 3D technologies in the motion picture and consumer electronics industries worldwide. As a result, our business is subject to certain risks inherent in international business operations, many of which are beyond our control. These risks include:

- competitive and pricing pressures that vary from market-to-market and place-to-place;
- fluctuating foreign exchange rates and systems, particularly the Euro;
- laws and policies affecting trade, investment and taxes, including laws and policies relating to customs, duties, the repatriation of funds and withholding taxes and changes in these laws and our compliance with the foregoing;
- changes in local regulatory requirements, including restrictions on content;

- differing cultural tastes and attitudes;
- differing degrees of protection for intellectual property;
- the need to adapt our business model to local requirements;
- the instability of foreign economies and governments; and
- political instability, natural disaster, war or acts of terrorism.

Events or developments related to these and other risks associated with our international business operations could adversely affect our revenue from such operations, which could have a material and adverse effect on our business, financial condition and results of operations.

Our operating results may fluctuate substantially from quarter to quarter, which may be different from analysts   expectations and adversely affect our stock price.

Our operating results may fluctuate substantially from quarter to quarter. In addition, these fluctuations may result in unanticipated decreases in our available cash, which could negatively impact our business and prospects. Factors that have affected our operating results in the past, and are likely to affect our operating results in the future, include, among other things:

- the timing of when a 3D motion picture is released which tends to be based on specific consumer entertainment dynamics, which results in seasonal patterns, with the largest number of motion pictures being released in summer and early winter;

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- the rate of installations of new RealD Cinema Systems, which we expect to decrease with the passage of time;

- the timing of capital expenditures and expenses, including depreciation expense of our RealD Cinema Systems deployed at a motion picture exhibitor s premises (we expect capital expenditures to decrease, and depreciation expense to increase, as our RealD Cinema Systems business matures), digital projector depreciation expenses, RealD eyewear costs (including shipping, handling and recycling costs), competitive pricing for RealD eyewear, field service and support costs, and occupancy costs, which may increase significantly, even in quarters when we do not experience a similar growth in revenue;

- demand for RealD eyewear in both the domestic and international markets, which may continue to fluctuate;

- the timing and accuracy of license fee reports which often include positive or negative corrective or retroactive license fees that cover extended periods of time;

- competitive and pricing pressures that vary from market-to-market and place-to-place.

One or more of the foregoing or other factors may cause our operating expenses to be disproportionately higher or lower and may cause our revenue and operating results to fluctuate significantly, which could result in net losses in a particular quarter or annual period. Consequently, results from prior periods are not necessarily indicative of the results of future periods.

In addition, variances in our operating results from analysts expectations could adversely affect our stock price. See also Management s discussion and analysis of financial condition and results of operations Seasonality and quarterly performance.

Our RealD eyewear may, in the future, be regulated by the Food and Drug Administration, or FDA, or by other state or foreign governmental or regulatory agencies, which could increase our costs and materially and adversely impact our profitability.

Currently, polarized 3D eyewear, including our RealD eyewear, is not regulated by the FDA, or by state or foreign governmental and regulatory agencies. However, certain eyewear, such as non-prescription reading glasses and sunglasses, are considered to be medical devices by the FDA and are subject to regulations imposed by the FDA and various state and foreign governmental and regulatory agencies. With the rising popularity of polarized 3D eyewear, there has been an increasing level of public scrutiny examining its potential health risks. Polarized 3D eyewear, including our RealD eyewear, may at some point be subject to federal, state or foreign regulations that could potentially restrict how our RealD eyewear is produced, used or marketed, and the cost of complying with those regulations may adversely affect our profitability.

If 3D viewing with active or passive eyewear is found to cause health risks or consumers believe that it does, demand for the 3D viewing experience may decrease or we may become subject to liability, any of which could adversely affect our results of operations, financial condition, business and prospects.

Research conducted by institutions unrelated to us has suggested that 3D viewing with active or passive eyewear may cause vision fatigue, eye strain, discomfort, headaches, motion sickness, dizziness, nausea, epileptic seizures, strokes, disorientation, perceptual after-effects, decreased postural stability or other health risks in some consumers. If these potential health risks are substantiated or consumers believe in their validity, demand for the 3D viewing experience in the theater, the home and elsewhere may decline. As a result, major motion picture studios and other content producers and distributors may refrain from developing 3D content, motion picture exhibitors may reduce the number of 3D-enabled screens (including RealD-enabled screens) they currently deploy or plan to deploy, or they may reduce the number of 3D motion pictures exhibited in their theaters, which would adversely affect our results of operations, financial condition and prospects. A decline in consumer demand may also lead consumer electronics manufacturers and content distributors to reduce or abandon the production of 3D products, which could adversely affect our prospects and financial condition.

In addition, if health risks associated with our RealD eyewear materialize, we may become subject to governmental regulation or product liability claims, including claims for personal injury. Successful assertion against us of one or a series of large claims could materially harm our business. Also, if our RealD eyewear is found to be defective, we may be required to recall it, which may result in substantial expense and adverse publicity that could adversely impact our sales, operating results and reputation. Potential product liability claims may exceed the amount of our insurance coverage or may be excluded under the terms of the policy, which could adversely affect our financial condition. In addition, we may also be required to pay higher premiums and accept higher deductibles in order to secure adequate insurance coverage in the future, which could materially and adversely affect our results of operations, financial condition and business. Even meritless product liability claims could be expensive to resolve and may divert our management s attention.

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Our agreements with motion picture studios domestically and motion picture exhibitors internationally require us to manage the supply chain of our RealD eyewear, and any interruption to the supply chain for our RealD eyewear components could adversely affect our results of operations, financial condition, business and prospects.

Our RealD eyewear is an integral part of our RealD Cinema Systems. We have entered into non-exclusive agreements with several manufacturers to produce RealD eyewear. We manage manufacturing, distribution and recycling of RealD eyewear for motion picture studios and exhibitors worldwide. Domestically, we generally provide our RealD eyewear free of charge to motion picture exhibitors and then receive a fee from the motion picture studios for the usage of that RealD eyewear by the motion picture exhibitors customers. Most international motion picture exhibitors and some domestic motion picture exhibitors purchase RealD eyewear directly from us and sell them to consumers as part of their admission or as a concession item. Any interruption in the supply of RealD eyewear from manufacturers, increase in shipping cost, logistics or recycling interruption, other disruption to our global supply chain or competitive pricing pressures could adversely affect our results of operations, financial condition, business and prospects. For example, in connection with recent major 3D motion picture releases and increased consumer demand, we have in the past exhausted our inventory of RealD eyewear and incurred increased shipping costs to accelerate delivery.

Our RealD 3D eyewear business model in North America relies on fees from motion picture studios for the usage of RealD eyewear by motion picture exhibitors customers, the uncertainty and any potential dispute between motion picture studios and exhibitors could adversely affect our results of operations, financial condition, business and prospects.

Our RealD eyewear is an integral part of our RealD Cinema Systems. Domestically, we provide our RealD eyewear free of charge to motion picture exhibitors and then receive a fee from the motion picture studios for the usage of that RealD eyewear by the motion picture exhibitors customers. Most international motion picture exhibitors purchase RealD eyewear directly from us and sell them to customers as part of their admission or as a concession. We understand that at least one major motion picture studio is seeking a change to the 3D eyewear business model in North America to resemble the international model. While we support multiple business models for our RealD eyewear around the world, the uncertainty and any potential dispute between motion picture studios and exhibitors over the domestic eyewear business model could adversely affect our results of operations, financial condition, business and prospects. In addition, we expect that profitability in our RealD eyewear business, to the extent achieved in any particular quarter, may not be sustainable, as motion picture studios with whom we do business seek to recover our cost savings and efficiencies in the form of reduced prices for eyewear.

Economic conditions beyond our control could reduce consumer demand for motion pictures and consumer electronics using our 3D technologies and, as a result, could materially and adversely affect our business, revenue and growth prospects.

The global economic environment since late 2008 has been volatile and continues to pose risks. The economy could remain significantly challenged for an indeterminate period of time. Present economic conditions could lead to a decrease in discretionary consumer spending, resulting in lower motion picture box office revenue. Declining box office revenue could make motion picture studios less willing to release 3D motion pictures and motion picture exhibitors less willing to license our RealD Cinema Systems. Further, a decrease in discretionary consumer spending may adversely affect future demand for 3D consumer electronics products that may use our 3D technologies and consumer electronics manufacturers may decide to limit, delay or cease their use of our 3D technologies, any of which could cause our business, revenue and growth prospects to suffer.

The loss of members of our management or research and development teams could substantially disrupt our business operations.

Our success depends to a significant degree upon the continued individual and collective contributions of our management and research and development teams. A limited number of individuals have primary responsibility for managing our business, including our relationships with motion picture studios and exhibitors and consumer electronics manufacturers and the research and development of our 3D technologies. The loss of any of these individuals, including Michael V. Lewis, our Chairman and Chief Executive Officer, or our failure to attract and retain other qualified and experienced personnel on acceptable terms, could impair our ability to sustain and grow our business. In addition, because we operate in a highly competitive industry, our hiring of qualified executives, scientists, engineers or other personnel may cause us or those persons to be subject to lawsuits alleging misappropriation of trade secrets, improper solicitation of employees, breach of contract or other claims.

Our ability to use our net operating loss carryforwards could be subject to additional limitation if our ownership has changed or will change by more than 50%, which could potentially result in increased future tax liability.

While currently subject to a full valuation allowance for purposes of preparing our consolidated financial statements (see the discussion above under the heading Management s discussion and analysis of financial condition and results of operations Critical accounting policies and estimates Deferred tax asset valuation and tax exposures), we intend to use our U.S. net operating loss carryforwards to reduce any future U.S. corporate income tax liability associated with our operations. Section 382 of the U.S. Internal

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Revenue Code of 1986, as amended, generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone significant changes in stock ownership. We have not determined whether such ownership change has previously occurred. It is possible that our initial public offering, or IPO, either on a standalone basis or when combined with past or future transactions (including, but not limited to, significant increases during the applicable testing period in the percentage of our stock owned directly or constructively by (i) any stockholder who owns 5% or more of our stock or (ii) some or all of the group of stockholders who individually own less than 5% of our stock), will cause us to undergo one or more ownership changes. In that event, our ability to use our net operating loss carryforwards could be adversely affected. To the extent our use of net operating loss carryforwards is significantly limited under the rules of Section 382 (as a result of our IPO or otherwise), our income could be subject to U.S. corporate income tax earlier than it would if we were able to use net operating loss carryforwards, which could result in lower profits.

Prior to the fiscal year ended March 23, 2012, we had a history of net losses and may suffer losses in the future.

While we were profitable in the fiscal year ended March 23, 2012, we incurred net losses in the current quarter ended September 21, 2012, and our fiscal years ended 2011, 2010, 2009 and 2008. If we cannot achieve sustained profitability, our financial condition will deteriorate, and we may be unable to achieve our business objectives.

Risks related to owning our common stock

The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.

Shares of our common stock were sold in our IPO in July 2010 at a price of $16.00 per share, and, as of October 25, 2012, our common stock has subsequently traded as high as $35.60 and as low as $7.94. An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares or at all. The market price of our common stock could fluctuate significantly for various reasons, which include:

- our quarterly or annual earnings or those of our competitors;
- the public s reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in earnings estimates or recommendations by research analysts who track our common stock or the stock of our competitors;

- new laws or regulations or new interpretations of laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in general conditions in the domestic and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events;
- litigation involving our company or investigations or audits by regulators into the operations of our company or our competitors;
- strategic action by our competitors; and
- sales of common stock by our directors, executive officers and significant stockholders.

In addition, the stock market in general, and the market for technology and media companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of our common stock, regardless of actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company s securities, securities class action litigation has often been instituted against these companies. If litigation is instituted against us, it could result in substantial costs and a diversion of our management s attention and resources even if such litigation is without merit.

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Sales of outstanding shares of our common stock (or shares of our common stock issued upon exercise of stock options) into the market in the future could cause the market price of our stock to drop significantly, even if our business is doing well.

As of October 25, 2012, we had 51,463,422 shares of common stock outstanding which are freely tradable, subject to prior registration or qualification for an exemption from registration, including, in the case of shares held by affiliates, compliance with the volume, manner of sale, notice and availability of public information provisions of Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. Our co-founders and certain other pre-IPO stockholders also have registration rights which enable them to cause us to register for sale shares held by them in the public markets. If our existing security holders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline.

In addition, as of September 21, 2012, there were 10,202,226 shares underlying options and restricted stock that were issued and outstanding, and we have an aggregate of 1,162,639 shares of common stock reserved for future issuance under our equity incentive plan and employee stock purchase plan. These shares will become eligible for sale in the public market to the extent permitted by the provisions of various option and warrant agreements, maintenance of applicable registration statements and Rules 144 and 701 under the Securities Act. If additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our stock could decline.

Our co-founders, directors, executive officers and principal stockholders have substantial control over us and could delay or prevent a change in corporate control.

As of March 23, 2012, our directors and executive officers, together with their affiliates, beneficially owned approximately 18.88% of our outstanding common stock. Of this 18.88%, approximately 10.15% was beneficially owned by Michael V. Lewis, our chairman and chief executive officer, and approximately 4.31% was beneficially owned by Joshua Greer, our co-founder and member of our board of directors until July 16, 2012.

These stockholders, acting together, have the ability to control, or have significant influence over, the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, have the ability to control, or have significant influence over, the management and affairs of our company. Accordingly, this concentration of ownership might harm the market price of our common stock by:

- delaying, deferring or preventing a change in corporate control;
- impeding a merger, consolidation, takeover or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

As a public company, we are required to assess our internal control over financial reporting on an annual basis, and any future adverse results from such assessment could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

As a public company, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we need to perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 requires that we expend significant management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our common stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which could require additional financial and management resources..

Your percentage ownership in us may be diluted by future issuances of capital stock, which could reduce your influence over matters on which stockholders vote.

Our board of directors has the authority, without action or vote of our stockholders, to issue all or any part of our authorized but unissued shares of common stock, including shares issuable upon the exercise of options, shares that may be issued to satisfy our obligations under our equity incentive plans, shares that may be issued in connection with our acquisition of other companies, assets or technology, or shares of our authorized but unissued preferred stock. Issuances of common stock or preferred voting stock could reduce your influence over matters on which our stockholders vote and, in the case of issuances of preferred stock, likely could result in your interest in us being subject to the prior rights of holders of that preferred stock. In addition, any future issuance of capital stock by us will dilute your economic interest in our company.

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We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.

We do not expect to pay dividends on shares of our common stock in the foreseeable future, and we intend to use cash generated from operations to continue to grow our business. Consequently, your only opportunity to achieve a positive return on your investment in us will be if the market price of our common stock appreciates.

If securities or industry analysts cease to publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

Provisions in our certificate of incorporation and bylaws and Delaware law may discourage, delay or prevent a change of control of our company or changes in our management and, therefore, may depress the trading price of our stock.

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that some of the stockholders of our company may deem advantageous. Some of these provisions:

- authorize the issuance of blank check preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;

- provide for a classified board of directors (three classes) where only one-third of our board of directors is up for re-election at the annual stockholders meeting each year;

- provide that stockholders may only remove directors for cause

- provide that stockholders may only remove directors prior to the expiration of their term upon a supermajority vote of at least 80% of our outstanding common stock;

- provide that any vacancy on our board of directors, including a vacancy resulting from an increase in the size of the board, may only be filled by the affirmative vote of a majority of our directors then in office, even if less than a quorum;

- provide that a special meeting of stockholders may only be called by our board of directors or by our chief executive officer;

- provide that action by written consent of the stockholders may be taken only if the board of directors first approves such action; provided that, notwithstanding the foregoing, we will hold an annual meeting of stockholders in accordance with NYSE rules, for so long as our shares are listed on NYSE, and as otherwise required by the bylaws;

- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and

- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

We may also adopt a poison pill stockholder rights plan at any time in response to a potentially hostile bid or for any or no reason due to our available blank check preferred stock. Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

On April 20, 2012, we announced that our board of directors had approved an authorization to repurchase up to $50.0 million of RealD common stock. The number of shares to be repurchased and the timing of any potential repurchases will depend on factors such as the Company s stock price, economic and market conditions, alternative uses of capital, and corporate and regulatory requirements. Repurchases of common stock may be made under a Rule 10b5-1 plan, which would permit common stock to be repurchased when RealD might otherwise be precluded from doing so under insider trading laws, and a variety of other methods, including open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, or by any combination of such methods. The repurchase program may be suspended or discontinued at any time.

Pursuant to the stock repurchase plan authorized by our board of directors on April 20, 2012, we repurchased 2,560,148 shares of common stock for approximately $26.2 million under our stock repurchase plan from inception through September 21, 2012.

For the three-month period ended September 21, 2012, we repurchased 2,426,161 shares of common stock at an average price of $10.16 for an aggregate purchase price of approximately $24.6 million, all of which were made pursuant to our stock repurchase plan, as follows (unaudited):

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plan or program	Approximate dollar value of shares that may yet be purchased under the plan or program (in thousands)
June 23, 2012 to July 20, 2012	-	$ -	-	$ 48,414
July 21, 2012 to August 17, 2012	941,708	$ 10.08	941,708	$ 38,919
August 18, 2012 to September 21, 2012	1,484,453	$ 10.21	1,484,453	$ 23,765
Total	2,426,161	$ 10.16	2,426,161	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are attached hereto and filed herewith:

EXHIBIT INDEX

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation as filed with the Secretary of State of the State of Delaware on July 15, 2010.
3.2(2)	Amended and Restated Bylaws as became effective on July 15, 2010.
4.1(3)	Form of specimen common stock certificate.
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

(1) Incorporated by reference to Exhibit 3.1 filed with the Registrant s Quarterly Report on Form 10-Q on July 28, 2011.
(2) Incorporated by reference to Exhibit 3.2 filed with the Registrant s Quarterly Report on Form 10-Q on July 28, 2011.
(3) Incorporated by reference to exhibit of same number filed with the Company s Registration Statement on Form S-1/A (No. 333-165988) on May 26, 2010.

Certain provisions of this exhibit have been omitted pursuant to a request for confidential treatment.
# Indicates management contract or compensatory plan, contract, or agreement.
** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RealD Inc.

By: /s/ Andrew A. Skarupa
Andrew A. Skarupa

Chief Financial Officer and Chief Operating Officer

Date: October 29, 2012