

# REALNETWORKS INC

## **FORM 8-K** (Current report filing)

Filed 05/03/17 for the Period Ending 05/03/17

|             |   |
|-------------|---|
| Address     | 1501 FIRST AVENUE SOUTH<br>SUITE 600<br>SEATTLE, WA 98134 |
| Telephone   | 2066742700  |
| CIK         | 0001046327  |
| Symbol      | RNWK  |
| SIC Code    | 7371 - Computer Programming Services                      |
| Industry    | Software  |
| Sector      | Technology  |
| Fiscal Year | 12/31   |

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

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**FORM 8-K**

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**CURRENT REPORT**

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

**DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): May 3, 2017**

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**RealNetworks, Inc.**

(Exact name of registrant as specified in its charter)

**WASHINGTON**  
(State or other jurisdiction  
of incorporation)

**0-23137**  
(Commission  
File Number)

**91-1628146**  
(I.R.S. Employer  
Identification No.)

**1501 First Avenue South, Suite 600**  
**Seattle, Washington 98134**  
(Address of principal executive offices) (Zip code)

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

**Not Applicable**  
(Former name or former address if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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**Item 2.02. Results of Operations and Financial Condition.**

On May 3, 2017, RealNetworks, Inc. announced its financial results for the first quarter ended March 31, 2017. The full text of the press release is furnished as Exhibit 99.1 hereto.

Furnished as Exhibit 99.2 hereto is additional information regarding non-GAAP financial measures included in certain public disclosures of RealNetworks, including its first quarter 2017 financial results press release.

The information set forth in this Item 2.02 shall not be deemed “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

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**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits.

Pursuant to the rules and regulations of the SEC, the attached exhibits are deemed to have been furnished to, but not filed with, the SEC.

| <b>Exhibit<br/>No.</b> | <b>Description</b>                                       |
|------------------------|--|
| 99.1                   | Earnings Release of RealNetworks, Inc. dated May 3, 2017 |
| 99.2                   | Information Regarding Non-GAAP Financial Measures        |

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Form 8-K Report to be signed on its behalf by the undersigned hereunto duly authorized.

**REALNETWORKS, INC.**

By: \_\_\_\_\_ /s/ Marjorie Thomas  
**Marjorie Thomas**  
**Senior Vice President, Chief Financial Officer and Treasurer**  
**(Principal Financial and Accounting Officer)**

Dated: May 3, 2017

## EXHIBIT INDEX

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**REALNETWORKS ANNOUNCES FIRST QUARTER 2017 RESULTS****SEATTLE - May 3, 2017 -**

- *Revenue stability, with year-over-year revenue growth for first quarter;*
- *Reduced year-over-year operating expenses by \$6.5 million in first quarter; and*
- *Investing in key growth initiatives*

RealNetworks, Inc. (Nasdaq: RNWK), a leader in digital media software and services, today announced results for the first quarter ended March 31, 2017 .

For the first quarter of 2017 , revenue was \$30.6 million , up from \$28.2 million in the first quarter of 2016 . For the first quarter of 2017, the Company reduced its operating expenses by \$6.5 million or 23% from the same period in 2016.

Net loss for the first quarter of 2017 was \$(9.4) million or \$(0.25) per share, compared to \$(15.2) million or \$(0.42) per share in the first quarter of 2016 . Adjusted EBITDA for the first quarter of 2017 was a loss of \$(4.4) million , compared to a loss of \$(8.1) million in the first quarter of 2016. A reconciliation of GAAP net income (loss) to adjusted EBITDA, a non-GAAP measure, is provided in the financial tables that accompany this release.

“In Q1, we achieved our financial objectives while also investing in our key growth initiatives,” said Rob Glaser, Chairman and CEO of RealNetworks. “We achieved stable revenue while also reducing our operating expenses by 23% from a year ago. At the same time, we’re growing our mobile games business, developing new Mobile Service offerings, and continuing to build partnerships and seed the ecosystem for our new RealMedia HD codec.”

As of March 31, 2017 , the Company had \$66.3 million in unrestricted cash, cash equivalents and short-term investments, compared to \$77.1 million as of December 31, 2016.

**Business Outlook**

For the second quarter of 2017, RealNetworks expects total revenue in the range of \$28 million to \$31 million and an adjusted EBITDA loss for the second quarter in the range of \$(3.0) million to \$(5.0) million.

**Webcast and Conference Call Information**

The company will host a conference call today to review results and discuss the company’s performance at 5 p.m. ET/2 p.m. PT. You may join the conference call by calling 888-831-6080 or +1-210-234-0017 (Passcode: 1ST QUARTER). A live webcast of the call will be available at <http://investor.realnetworks.com/> and an on-demand webcast will be available approximately one hour following the conclusion of the conference call. A telephonic replay will be available until 11:59 p.m. PT, May 24, 2017 by calling 866-453-2318 or +1-203-369-1226 (Passcode: 532017).

**For More Information**

Investor Relations for RealNetworks  
+1-206-674-2700  
IR@realnetworks.com

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## **About RealNetworks**

RealNetworks creates innovative applications and services that make it easy to connect with and enjoy digital media. RealNetworks invented the streaming media category in 1995 and continues to connect consumers with their digital media both directly and through partners, aiming to support every network, device, media type and social network. RealNetworks' corporate information is located at [www.realnetworks.com/about-us](http://www.realnetworks.com/about-us).

RealNetworks and RealTimes are trademarks or registered trademarks of RealNetworks, Inc. or its subsidiaries. All other companies or products listed herein are trademarks or registered trademarks of their respective owners.

## **About Non-GAAP Financial Measures**

To supplement RealNetworks' consolidated financial information presented in accordance with GAAP in this press release, the company also discloses certain non-GAAP financial measures, including adjusted EBITDA and contribution margin by reportable segment, which management believes provide investors with useful information.

In the financial tables of our earnings press release, RealNetworks has included reconciliations of GAAP net income (loss) to adjusted EBITDA and operating income (loss) by reportable segment to contribution margin by reportable segment.

The rationale for management's use of non-GAAP measures is included in the supplementary materials presented with the quarterly earnings materials. Please refer to Exhibit 99.2 ("Information Regarding Non-GAAP Financial Measures") to the company's report on Form 8-K, which is being submitted today to the SEC.

## **Forward-Looking Statements**

This press release contains forward-looking statements that involve risks and uncertainties, including statements relating to RealNetworks' current expectations regarding future revenue and adjusted EBITDA, our future growth, profitability, and market position, our strategic focus and initiatives, agreements with partners, and the growth and future prospects relating to our Rhapsody affiliate. All statements contained in this press release that do not relate to matters of historical fact should be considered forward-looking statements. These statements reflect RealNetworks' expectations as of today, and actual results may differ materially from the results predicted. Factors that could cause actual results to differ from the results predicted include: RealNetworks' ability to realize operating efficiencies, growth and other benefits from the implementation of its growth plan, strategic initiatives, and restructuring efforts; the emergence of new entrants and competition in the market for digital media products and services; other competitive risks, including the growth of competing technologies, products and services; the potential outcomes and effects of claims and legal proceedings on RealNetworks' business, prospects, financial condition or results of operations; risks associated with key customer or strategic relationships, business acquisitions and the introduction of new products and services; changes in consumer and advertising spending in response to disruptions in the global financial markets; fluctuations in foreign currencies; and changes in RealNetworks' effective tax rate. More information about potential risk factors that could affect RealNetworks' business and financial results is included in RealNetworks' annual report on Form 10-K for the most recent year ended December 31, its quarterly reports on Form 10-Q and in other reports and documents filed by RealNetworks from time to time with the Securities and Exchange Commission. The preparation of RealNetworks' financial statements and forward-looking financial guidance requires the company to make estimates and assumptions that affect the reported amount of assets and liabilities, and revenues and

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expenses during the reported period. Actual results may differ materially from these estimates under different assumptions or conditions. The company assumes no obligation to update any forward-looking statements or information, which are in effect as of their respective dates.

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**RealNetworks, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
(Unaudited)

|  | <b>Quarter Ended</b>                         |             |
|--|--|-------------|
|  | <b>March 31,</b>                             |             |
|  | <b>2017</b>                                  | <b>2016</b> |
|  | <b>(in thousands, except per share data)</b> |             |
| Net revenue  | \$ 30,576                                    | \$ 28,230   |
| Cost of revenue  | 17,293                                       | 15,172      |
| Gross profit   | 13,283                                       | 13,058      |
| Operating expenses:  |  |             |
| Research and development                                   | 7,349  | 9,319       |
| Sales and marketing  | 7,155  | 9,225       |
| General and administrative                                 | 5,303  | 8,077       |
| Restructuring and other charges                            | 1,564  | 385         |
| Lease exit and related charges                             | —  | 831         |
| Total operating expenses                                   | 21,371                                       | 27,837      |
| Operating income (loss)                                    | (8,088)                                      | (14,779)    |
| Other income (expenses):                                   |  |             |
| Interest income, net                                       | 128  | 117         |
| Gain (loss) on investments, net                            | —  | 3           |
| Equity in net loss of Rhapsody                             | (748)  | —           |
| Other income (expense), net                                | (226)  | (287)       |
| Total other income (expense), net                          | (846)  | (167)       |
| Income (loss) before income taxes                          | (8,934)                                      | (14,946)    |
| Income tax expense (benefit)                               | 490  | 225         |
| Net income (loss)  | \$ (9,424)                                   | \$ (15,171) |
| Basic net income (loss) per share                          | \$ (0.25)                                    | \$ (0.42)   |
| Diluted net income (loss) per share                        | \$ (0.25)                                    | \$ (0.42)   |
| Shares used to compute basic net income (loss) per share   | 37,030                                       | 36,520      |
| Shares used to compute diluted net income (loss) per share | 37,030                                       | 36,520      |

**RealNetworks, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(Unaudited)

|   | <b>March 31,</b><br><b>2017</b> | <b>December 31,</b><br><b>2016</b> |
|---|---------------------------------|------------------------------------|
| <b>(in thousands)</b>                                 |                                 |                                    |
| <b>ASSETS</b>   |                                 |                                    |
| Current assets:                                       |                                 |                                    |
| Cash and cash equivalents                             | \$ 38,498                       | \$ 33,721                          |
| Short-term investments                                | 27,778                          | 43,331                             |
| Trade accounts receivable, net                        | 26,833                          | 22,162                             |
| Deferred costs, current portion                       | 541                             | 760                                |
| Prepaid expenses and other current assets             | 4,843                           | 4,910                              |
| Total current assets                                  | 98,493                          | 104,884                            |
| Equipment and software                                | 44,640                          | 46,231                             |
| Leasehold improvements                                | 3,330                           | 3,317                              |
| Total equipment, software, and leasehold improvements | 47,970                          | 49,548                             |
| Less accumulated depreciation and amortization        | 43,181                          | 44,294                             |
| Net equipment, software, and leasehold improvements   | 4,789                           | 5,254                              |
| Restricted cash equivalents and investments           | 2,700                           | 2,700                              |
| Other assets  | 2,412                           | 1,742                              |
| Deferred costs, non-current portion                   | 1,071                           | 1,246                              |
| Deferred tax assets, net                              | 836                             | 816                                |
| Other intangible assets, net                          | 729                             | 938                                |
| Goodwill  | 12,915                          | 12,857                             |
| Total assets  | \$ 123,945                      | \$ 130,437                         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>           |                                 |                                    |
| Current liabilities:                                  |                                 |                                    |
| Accounts payable                                      | \$ 19,432                       | \$ 18,225                          |
| Accrued and other current liabilities                 | 15,425                          | 15,425                             |
| Commitment to Rhapsody                                | —                               | 1,500                              |
| Deferred revenue, current portion                     | 3,918                           | 3,430                              |
| Total current liabilities                             | 38,775                          | 38,580                             |
| Deferred revenue, non-current portion                 | 724                             | 240                                |
| Deferred rent   | 679                             | 748                                |
| Deferred tax liabilities, net                         | 87                              | 87                                 |
| Other long-term liabilities                           | 1,890                           | 2,201                              |
| Total liabilities                                     | 42,155                          | 41,856                             |
| Shareholders' equity                                  | 81,790                          | 88,581                             |
| Total liabilities and shareholders' equity            | \$ 123,945                      | \$ 130,437                         |

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

|  | <b>Quarter ended March 31,</b> |             |
|--|--------------------------------|-------------|
|  | <b>2017</b>                    | <b>2016</b> |
|  | <b>(in thousands)</b>          |             |
| Cash flows from operating activities:  |                                |             |
| Net income (loss)  | \$ (9,424)                     | \$ (15,171) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities:                           |                                |             |
| Depreciation and amortization  | 921                            | 2,598       |
| Stock-based compensation   | 1,434                          | 3,171       |
| Equity in net loss of Rhapsody   | 748                            | —           |
| Deferred income taxes, net   | (20)                           | (128)       |
| Loss (gain) on investments, net  | —                              | (3)         |
| Fair value of warrants granted in 2015 and 2017, net of subsequent mark to market adjustments in 2017 and 2016 | (471)                          | 44          |
| Net change in certain operating assets and liabilities   | (2,598)                        | (1,722)     |
| Net cash provided by (used in) operating activities  | (9,410)                        | (11,211)    |
| Cash flows from investing activities:  |                                |             |
| Purchases of equipment, software, and leasehold improvements   | (207)                          | (828)       |
| Purchases of short-term investments  | (6,142)                        | (17,876)    |
| Proceeds from sales and maturities of short-term investments   | 21,695                         | 23,401      |
| Decrease (increase) in restricted cash equivalents and investments, net  | —                              | (210)       |
| Advance to Rhapsody  | (1,500)                        | —           |
| Net cash provided by (used in) investing activities  | 13,846                         | 4,487       |
| Cash flows from financing activities:  |                                |             |
| Proceeds from issuance of common stock (stock options and stock purchase plan)                                 | 34                             | 16          |
| Tax payments from shares withheld upon vesting of restricted stock   | (181)                          | (787)       |
| Net cash provided by (used in) financing activities  | (147)                          | (771)       |
| Effect of exchange rate changes on cash and cash equivalents   | 488                            | 719         |
| Net increase (decrease) in cash and cash equivalents   | 4,777                          | (6,776)     |
| Cash and cash equivalents, beginning of year   | 33,721                         | 47,315      |
| Cash and cash equivalents, end of year   | \$ 38,498                      | \$ 40,539   |

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

|  | 2017             |                  | 2016             |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|
|  | Q1               | Q4               | Q3               | Q2               | Q1               |
|  | (in thousands)   |                  |                  |                  |                  |
| <b>Net Revenue by Line of Business</b> |                  |                  |                  |                  |                  |
| Consumer Media (A)                     | \$ 5,669         | \$ 6,443         | \$ 6,482         | \$ 6,400         | \$ 5,726         |
| Mobile Services (B)                    | 19,084           | 18,833           | 17,683           | 17,297           | 16,465           |
| Games (C)                              | 5,823            | 6,177            | 6,886            | 6,037            | 6,039            |
| <b>Total net revenue</b>               | <b>\$ 30,576</b> | <b>\$ 31,453</b> | <b>\$ 31,051</b> | <b>\$ 29,734</b> | <b>\$ 28,230</b> |
| <b>Net Revenue by Product</b>          |                  |                  |                  |                  |                  |
| <u>Consumer Media</u>                  |                  |                  |                  |                  |                  |
| - License (D)                          | \$ 3,672         | \$ 4,252         | \$ 4,136         | \$ 3,914         | \$ 3,104         |
| - Subscriptions (E)                    | 1,564            | 1,671            | 1,931            | 1,871            | 1,975            |
| - Media Properties (F)                 | 433              | 520              | 415              | 615              | 647              |
| <u>Mobile Services</u>                 |                  |                  |                  |                  |                  |
| - SaaS (G)                             | 18,987           | 18,726           | 17,141           | 17,208           | 16,220           |
| - Technology License & Other (H)       | 97               | 107              | 542              | 89               | 245              |
| <u>Games</u>                           |                  |                  |                  |                  |                  |
| - License (I)                          | 2,862            | 3,178            | 3,683            | 2,793            | 2,761            |
| - Subscriptions (J)                    | 2,828            | 2,836            | 3,005            | 3,024            | 3,029            |
| - Media Properties (K)                 | 133              | 163              | 198              | 220              | 249              |
| <b>Total net revenue</b>               | <b>\$ 30,576</b> | <b>\$ 31,453</b> | <b>\$ 31,051</b> | <b>\$ 29,734</b> | <b>\$ 28,230</b> |
| <b>Net Revenue by Geography</b>        |                  |                  |                  |                  |                  |
| United States                          | \$ 9,740         | \$ 10,125        | \$ 10,642        | \$ 10,355        | \$ 10,383        |
| Rest of world                          | 20,836           | 21,328           | 20,409           | 19,379           | 17,847           |
| <b>Total net revenue</b>               | <b>\$ 30,576</b> | <b>\$ 31,453</b> | <b>\$ 31,051</b> | <b>\$ 29,734</b> | <b>\$ 28,230</b> |

**Net Revenue by Line of Business**

(A) The Consumer Media division primarily includes revenue from RealPlayer and related products, such as the distribution of third-party software products, advertising on RealPlayer websites, sales of RealPlayer Plus software licenses to consumers, sales of intellectual property licenses, and consumer subscriptions such as RealPlayer Plus and SuperPass.

(B) The Mobile Services division primarily includes revenue from SaaS services and sales of professional services provided to mobile carriers.

(C) The Games division primarily includes revenue from sales of mobile games, sales of games licenses, online games subscription services, advertising on games sites and social network sites, and microtransactions from online games.

**Net Revenue by Product**

(D) Licensing revenue within Consumer Media includes sales of intellectual property licenses and RealPlayer Plus software licenses to consumers.

(E) Subscriptions revenue within Consumer Media includes revenue from subscriptions such as our RealPlayer Plus and SuperPass offerings.

(F) Media Properties revenue within Consumer Media includes distribution of third-party software products and advertising on RealPlayer websites.

(G) SaaS revenue within Mobile Services includes revenue from music on demand, ringback tones, intercarrier messaging services, and RealTimes.

(H) Technology licensing and other revenue within Mobile Services includes revenue from professional services provided to mobile carriers.

(I) Licensing revenue within Games includes retail games-related revenue and sales of mobile games.

(J) Subscriptions revenue within Games includes revenue from online games subscriptions as well as microtransactions from mobile games.

(K) Media Properties revenue within Games includes advertising on games sites and social network sites.

**RealNetworks, Inc. and Subsidiaries**  
**Segment Results of Operations and Reconciliation to non-GAAP Contribution Margin**  
(Unaudited)

|  | 2017           |            | 2016       |            |
|--|----------------|------------|------------|------------|
|  | Q1             | Q4         | Q4         | Q1         |
|  | (in thousands) |            |            |            |
| <b>Consumer Media</b>                              |                |            |            |            |
| Net revenue  | \$ 5,669       | \$ 6,443   | \$ 6,443   | \$ 5,726   |
| Cost of revenue                                    | 1,405          | 1,589      | 1,589      | 2,417      |
| Gross profit                                       | 4,264          | 4,854      | 4,854      | 3,309      |
| Gross margin                                       | 75%            | 75%        | 75%        | 58%        |
| Operating expenses                                 | 4,010          | 4,459      | 4,459      | 5,376      |
| Operating income (loss), a GAAP measure            | \$ 254         | \$ 395     | \$ 395     | \$ (2,067) |
| Depreciation and amortization                      | 167            | 239        | 239        | 1,303      |
| Contribution margin, a non-GAAP measure            | \$ 421         | \$ 634     | \$ 634     | \$ (764)   |
| <b>Mobile Services</b>                             |                |            |            |            |
| Net revenue  | \$ 19,084      | \$ 18,833  | \$ 18,833  | \$ 16,465  |
| Cost of revenue                                    | 13,914         | 13,679     | 13,679     | 10,917     |
| Gross profit                                       | 5,170          | 5,154      | 5,154      | 5,548      |
| Gross margin                                       | 27%            | 27%        | 27%        | 34%        |
| Operating expenses                                 | 8,119          | 7,786      | 7,786      | 9,794      |
| Operating income (loss), a GAAP measure            | \$ (2,949)     | \$ (2,632) | \$ (2,632) | \$ (4,246) |
| Acquisitions related intangible asset amortization | 196            | 198        | 198        | 308        |
| Depreciation and amortization                      | 203            | 290        | 290        | 422        |
| Contribution margin, a non-GAAP measure            | \$ (2,550)     | \$ (2,144) | \$ (2,144) | \$ (3,516) |
| <b>Games</b>                                       |                |            |            |            |
| Net revenue  | \$ 5,823       | \$ 6,177   | \$ 6,177   | \$ 6,039   |
| Cost of revenue                                    | 1,937          | 2,054      | 2,054      | 1,845      |
| Gross profit                                       | 3,886          | 4,123      | 4,123      | 4,194      |
| Gross margin                                       | 67%            | 67%        | 67%        | 69%        |
| Operating expenses                                 | 4,947          | 4,975      | 4,975      | 5,295      |
| Operating income (loss), a GAAP measure            | \$ (1,061)     | \$ (852)   | \$ (852)   | \$ (1,101) |
| Acquisitions related intangible asset amortization | 27             | 27         | 27         | 25         |
| Depreciation and amortization                      | 141            | 146        | 146        | 179        |
| Contribution margin, a non-GAAP measure            | \$ (893)       | \$ (679)   | \$ (679)   | \$ (897)   |
| <b>Corporate</b>                                   |                |            |            |            |
| Cost of revenue                                    | \$ 37          | \$ 36      | \$ 36      | \$ (7)     |
| Gross profit                                       | (37)           | (36)       | (36)       | 7          |
| Gross margin                                       | N/A            | N/A        | N/A        | N/A        |
| Operating expenses                                 | 4,295          | 3,244      | 3,244      | 7,372      |
| Operating income (loss), a GAAP measure            | \$ (4,332)     | \$ (3,280) | \$ (3,280) | \$ (7,365) |

|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Other income (expense), net             | (226)             | (128)             | (287)             |
| Depreciation and amortization           | 187               | 260               | 361               |
| Restructuring and other charges         | 1,564             | 192               | 385               |
| Stock-based compensation                | 1,434             | 867               | 3,171             |
| Lease exit and related charges          | —                 | 48                | 831               |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Contribution margin, a non-GAAP measure | \$ (1,373)        | \$ (2,041)        | \$ (2,904)        |

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**RealNetworks, Inc. and Subsidiaries**  
**Reconciliation of Net income (loss) to adjusted EBITDA, a non-GAAP measure**  
(Unaudited)

|   | 2017           |    | 2016    |             |
|---|----------------|----|---------|-------------|
|   | Q1             |    | Q4      | Q1          |
|   | (in thousands) |    |         |             |
| <b>Reconciliation of GAAP Net income (loss) to adjusted EBITDA:</b> |                |    |         |             |
| Net income (loss)   | \$ (9,424)     | \$ | (9,976) | \$ (15,171) |
| Income tax expense (benefit)  | 490            |    | 203     | 225         |
| Interest income, net  | (128)          |    | (133)   | (117)       |
| Gain (loss) on investments, net                                     | —              |    | (2,495) | (3)         |
| Equity in net loss of Rhapsody                                      | 748            |    | 5,904   | —           |
| Acquisitions related intangible asset amortization                  | 223            |    | 225     | 333         |
| Depreciation and amortization                                       | 698            |    | 935     | 2,265       |
| Restructuring and other charges                                     | 1,564          |    | 192     | 385         |
| Stock-based compensation  | 1,434          |    | 867     | 3,171       |
| Lease exit and related charges                                      | —              |    | 48      | 831         |
| Adjusted EBITDA, a non-GAAP measure                                 | \$ (4,395)     | \$ | (4,230) | \$ (8,081)  |



### About Non-GAAP Financial Measures

To supplement RealNetworks' condensed consolidated financial statements presented in accordance with GAAP, the Company presents investors with certain non-GAAP financial measures, including adjusted EBITDA and contribution margin by reportable segment. Contribution margin by reportable segment consists of operating income (loss) and includes other income (expense) net, but excludes the impact of the following: depreciation and amortization; acquisitions related intangible asset amortization; stock-based compensation; restructuring and other charges; lease exit and related charges. Adjusted EBITDA consists of GAAP net income (loss) and excludes the impact of the following: interest income (loss), income tax expense, gain on investments, equity in net loss of Rhapsody, depreciation and amortization; acquisitions related intangible asset amortization; stock-based compensation; restructuring and other charges and lease exit and related charges.

RealNetworks believes that the presentation of adjusted EBITDA and contribution margin by reportable segment provide important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations. Management believes that the use of these non-GAAP financial measures provides consistency and comparability with RealNetworks' past financial reports, and also facilitates comparisons with other companies in the Company's industry, many of which use similar non-GAAP financial measures to supplement their GAAP results. Management uses these non-GAAP measures when evaluating operating performance because the inclusion or exclusion of the items described above provides additional useful measures of the Company's operating results and facilitates comparisons of the Company's core operating performance against prior periods and its business model objectives. The Company has chosen to provide this information to investors in order to enable them to perform additional analyses of past, present and future operating performance, to enable them to compare RealNetworks with other companies, and as a supplemental means to evaluate the Company's ongoing operations. Externally, the Company believes that adjusted EBITDA is useful to investors in their assessment of RealNetworks' operating performance and the valuation of the Company.

Internally, adjusted EBITDA and contribution margin by reportable segment are significant measures used by management for purposes of:

- supplementing the financial results and forecasts reported to the Company's board of directors;
- evaluating the operating performance of RealNetworks, which includes direct and incrementally controllable revenue and costs of operations but excludes items considered by management to be non-cash or non-operating such as interest income and expense, stock-based compensation, tax expense, depreciation and amortization, impairment of deferred costs and long-lived assets, and other items that are not within management's control;
- managing and comparing performance internally across the Company's businesses and externally against the Company's peers;
- establishing internal operating budgets; and
- evaluating and valuing potential acquisition candidates.

Adjusted EBITDA and contribution margin by reportable segment are not calculated in accordance with GAAP, and should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. Non-GAAP financial measures have limitations in that they do not reflect all of the costs associated with the operations of RealNetworks' business as determined in accordance with GAAP. As a result, you should not consider these measures in isolation or as a substitute for analysis of RealNetworks' results as reported under GAAP. The Company expects to continue to incur expenses similar to the non-GAAP adjustments described above, and exclusion of these items from its non-GAAP financial measures should not be construed as an inference that these costs are unusual or infrequent. Some of the limitations in relying on the Company's non-GAAP financial measures are that adjusted EBITDA and contribution margin by reportable segment are measures that the Company has defined for internal and investor purposes and are not in accordance with GAAP. A further limitation associated with these measures is that they do not include all costs and income that impact the Company's net income (loss) or operating income (loss) at the segment level. The Company compensates for these limitations by prominently disclosing GAAP net income (loss) and operating income (loss) by reportable segment, which the Company believes are the most directly comparable GAAP measures, and providing investors with reconciliations from GAAP net income (loss) to adjusted EBITDA and operating income (loss) to contribution margin by reportable segment.

RealNetworks has included reconciliations of GAAP net income (loss) to adjusted EBITDA and GAAP operating income (loss) by reportable segment to contribution margin by reportable segment for the relevant periods in the financial tables of its earnings press release, which is included as Exhibit 99.1 to this report.