



## RealNetworks Announces Fourth Quarter and Full Year 2008 Results

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[RealNetworks, Inc. and Subsidiaries Condensed Consolidated Statement of Operations \(PDF\)](#)

SEATTLE - February 12, 2009 - Digital entertainment services company RealNetworks<sup>®</sup>, Inc. (Nasdaq: RNWK) today announced results for the fourth quarter and fiscal year ended December 31, 2008.

### Quarterly Highlights

- Revenue of \$152.6 million
- Net loss of \$(240.5) million or \$(1.78) per share
- Adjusted EBITDA of \$(14.5) million
- Adjusted EBITDA, excluding impairments, of \$11.3 million

### Full Year Highlights

- Record revenue of \$604.8 million
- Net loss of \$(243.9) million or \$(1.74) per share
- Adjusted EBITDA of \$34.2 million
- Adjusted EBITDA, excluding impairments, of \$60.7 million
- Cash and short term investments of \$370.7 million as of December 31, 2008

"In spite of a difficult and turbulent macro-economic environment, RealNetworks delivered revenue in line with our fourth-quarter expectations," said Rob Glaser, CEO of RealNetworks. "We believe that the high-value, low-cost digital entertainment products and services we offer consumers are a great fit for these tough financial times."

### Fourth Quarter Results

For the fourth quarter of 2008, revenue declined 3% to \$152.6 million compared with \$156.9 million for the fourth quarter of 2007. Foreign currency exchange rate fluctuations negatively affected 2008 fourth quarter revenue by approximately \$6.3 million compared with the year-ago quarter. Excluding the effects of foreign exchange rate changes, revenue grew 1% year over year. Revenue trends in each of Real's businesses in the fourth quarter of 2008 compared with the year-earlier quarter were: a 9% increase in Games revenue to \$33.7 million, an 8% increase in Music revenue to \$43.9 million, an 11% decrease in Media Software and Services revenue to \$22.7 million, and a 13% decrease in Technology Products and Solutions revenue to \$52.4 million.

Net loss for the fourth quarter of 2008 was \$(240.5) million, or \$(1.78) per share, compared with net income of \$2.7 million, or \$0.02 per diluted share, in the fourth quarter of 2007. Included in the fourth quarter 2008 net loss were impairment charges, net of tax benefit, totaling \$240.7 million. Of these charges, approximately \$5.5 million is expected to result in a use of cash over future quarters.

Adjusted EBITDA for the fourth quarter of 2008 was a loss of \$(14.5) million compared with \$15.7 million in the fourth quarter of 2007. Adjusted EBITDA for the fourth quarter of 2008 included impairments of \$25.8 million. Adjusted EBITDA excluding impairments for the fourth quarter of 2008 was \$11.3 million compared with \$19.4 million in the fourth quarter of 2007. A reconciliation of GAAP net loss to adjusted EBITDA and adjusted EBITDA excluding impairments is provided in the financial tables that accompany this release.

As of December 31, 2008, Real had approximately \$371 million in unrestricted cash, cash equivalents and short-term

investments, of which approximately 89% is located in the U.S. In addition, Real has approximately \$33 million in restricted cash and equity investments at December 31, 2008. Use of cash in the fourth quarter included approximately \$27.1 million for the repurchase of 6.1 million shares of common stock and \$9.9 million for an equity investment in a public technology company in conjunction with SK Telecom. The stock repurchases in the fourth quarter completed the repurchase authorization approved by Real's Board of Directors in April 2008. Since the beginning of 2005, Real has repurchased approximately 54 million shares through its repurchase programs for approximately \$382 million.

Gross margin in the fourth quarter, including impairments, was 48%, compared with 61% for the fourth quarter a year earlier. Gross margin was 61% in the fourth quarter of 2008 when excluding the effect of a \$19.7 million charge to reflect the impairment of deferred project costs and prepaid royalties.

Income tax provision was \$(17.4) million, including a \$22.2 million increase in the valuation allowance for deferred tax assets, net of the tax benefit related to fourth quarter impairments, compared with (\$47,000) in the year-earlier period. Interest income in the fourth quarter of 2008 was \$2.3 million compared with \$6.4 million in the year-earlier period.

#### Impairment Charges

#### **The impairment charges in the fourth quarter of 2008 included:**

A charge of \$192.7 million to reflect the impairment of goodwill and acquired intangible assets.

- A charge of \$19.7 million to impair certain deferred project costs and pre-paid royalties, which resulted in a reduction to fourth quarter gross margins.
- Restructuring and other charges of \$6.1 million to reflect a reduction in force in the fourth quarter and the write-off of capitalized transaction-related costs associated with the company's plan to separate its games business from the parent company.
- A charge of \$22.2 million to reflect an increase in the valuation allowance for deferred tax assets, net of the tax benefit related to the above mentioned items.

In addition, the accounting for the quarterly gain on the 2007 sale of 49% of Rhapsody America was not reflected in the income statement in the fourth quarter due to declines in market valuations and, therefore, a decline in the assumed valuation of the Rhapsody America venture. In prior periods, and in accordance with Staff Accounting Bulletin 51, "Accounting for Sales of Stock of a Subsidiary," the gain was reflected in the income statement as a "gain on sale of interest in Rhapsody America," but for the fourth quarter of 2008, a \$6.6 million gain was recorded directly to shareholders' equity. Although the accounting has changed, the economic effect of the transaction on the company remains the same. As previously reported, due to a change in the accounting rules relating to minority interests, the company expected to end recording the amount in the income statement and instead to start recording it in shareholders' equity beginning in the first quarter of 2009.

#### **Full Year Results**

For 2008, revenue grew 7% to \$604.8 million compared with \$567.6 million in 2007. Foreign currency exchange rate fluctuations negatively affected 2008 revenue by approximately \$3.0 million compared with 2007. Revenue trends in each of Real's businesses for the full year 2008 compared with 2007 were: a 24% increase in Games revenue to \$134.6 million, an 8% increase in Music revenue to \$160.7 million, and relatively unchanged revenue in Technology Products and Solutions of \$206.6 million and in Media Software and Services of \$102.9 million.

Adjusted EBITDA for 2008 was \$34.2 million, compared with \$53.9 million in 2007. Adjusted EBITDA excluding impairments for 2008 was \$60.7 million compared with \$57.7 million for 2007. A reconciliation of GAAP net loss to adjusted EBITDA and adjusted EBITDA excluding impairments is provided in the financial tables that accompany this release.

Net loss for the year was \$(243.9) million, or \$(1.74) per share, compared with net income of \$48.3 million, or \$0.29 per diluted share, in 2007. Net income in 2007 included a net benefit from the antitrust settlement with Microsoft of \$60.7 million in the first quarter.

Gross margin for the year, including fourth-quarter 2008 impairments of \$19.7 million for deferred project costs and prepaid royalties, was 58%, compared with 62% a year earlier. Gross margin was 61% in 2008, excluding the aforementioned fourth-quarter impairments.

Income tax provision for 2008 was \$(25.8) million compared with \$(27.5) million in 2007, and interest income in 2008 was \$13.5 million compared with \$30.9 million in 2007.

#### **Business Outlook**

Due to the high level of uncertainty regarding consumer spending, global economic trends, foreign exchange rate fluctuations, and credit markets, RealNetworks is not providing quantitative guidance. The company expects 2009 to be a challenging year

for consumer spending, online advertising and corporate IT spending.

For the first quarter of 2009, Real expects overall revenue to decline sequentially and year over year. Compared with the year-earlier quarter, the company expects first-quarter Music revenue to increase, Games revenue to be flat, and revenue in Media Software and Services and Technology Products and Solutions to decline. Approximately 20% of Real's revenue is denominated in currencies other than the U.S. dollar, most notably the euro and Korean won. Based on current currency rates, Real expects reported revenues to be negatively affected by foreign currency trends.

The foregoing forward-looking statements reflect Real's expectations as of Feb. 12, 2009. It is not Real's general practice to update these forward-looking statements until its next quarterly results announcement.

### **Webcast Details**

Investors are invited to join the live Webcast at 5:00 p.m. ET on February 12, featuring slides and audio. The Webcast will be available at:

<http://investor.realnetworks.com>

Webcast participants will need RealPlayer<sup>®</sup> to hear and view the webcast, which can be downloaded at [www.real.com](http://www.real.com).

The on-demand Webcast will be available approximately two hours following the conclusion of the live Webcast.

### **Conference Call Details**

Time:

5:00 pm (Eastern) / 2:00 pm (Pacific)

Dial In:

800-857-5305 Domestic

773-681-5857 International

Passcode: Fourth Quarter Earnings

Leader: Rob Glaser

Telephonic replay will be available until 8:00 pm (Eastern), February 26, 2009.

Dial In

800-819-5743 Domestic

203-369-3828 International

RNWK-F

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### **ABOUT REALNETWORKS**

RealNetworks, Inc. delivers digital entertainment services to consumers via PC, portable music player, home entertainment system and mobile phone. Real created the streaming media category in 1995 and has continued to lead the market with pioneering products and services, including: RealPlayer<sup>®</sup>, the first mainstream media player to enable one-click downloading and recording of Internet video; the award-winning Rhapsody<sup>®</sup> digital music service, which delivers more than 1 billion songs per year; RealArcade<sup>®</sup>, one of the largest casual games destinations on the Web; and a variety of mobile entertainment services, such as ringback tones, offered to consumers through leading wireless carriers around the world. RealNetworks' corporate information is located at [investor.realnetworks.com](http://investor.realnetworks.com).

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

To supplement RealNetworks' condensed consolidated financial statements presented in accordance with GAAP, we present investors with certain non-GAAP financial measures, including adjusted revenue, adjusted EBITDA, adjusted EBITDA excluding

impairments, adjusted EBITDA excluding impairments by reporting segment, adjusted cost of revenue, gross margin excluding impairments and adjusted operating expenses.

- Adjusted revenue consists of revenue excluding the impact of foreign exchange rate fluctuations experienced in the fourth quarter.
- Adjusted EBITDA consists of net income excluding the impact of the following: interest income, net; income taxes; depreciation; amortization (net of minority interest effect); stock-based compensation; expenses for employee stock options that were converted to cash rights; equity investment gains and losses from sales or impairments; income and expenses including charitable contributions related to the Microsoft agreements; impairment of long-lived assets (net of minority interest effect); gain on initial formation of Rhapsody America; and the effect of the fourth quarter change in accounting for the sale of minority interest in Rhapsody America.
- Adjusted EBITDA excluding impairments and adjusted EBITDA excluding impairments by reporting segment consist of net income excluding the impact of the following: interest income, net; income taxes; depreciation; amortization (net of minority interest effect); stock-based compensation; expenses for employee stock options that were converted to cash rights; equity investment gains and losses from sales or impairments; income and expenses including charitable contributions related to the Microsoft agreements; impairment of long-lived assets (net of minority interest effect); impairment of deferred costs and prepaid royalties; restructuring and other charges; gain on initial formation of Rhapsody America; and the effect of the fourth quarter change in accounting for the sale of minority interest in Rhapsody America.
- Adjusted cost of revenue consists of GAAP cost of revenue excluding stock-based compensation expenses, acquisition costs including amortization of intangible assets (net of minority interest effect), expenses for employee stock options that were converted to cash rights, and impairments of deferred costs and prepaid royalties. Gross margin excluding impairments consists of GAAP gross margin excluding the effect of impairments of deferred costs and prepaid royalties.
- Adjusted operating expenses consist of GAAP operating expenses excluding stock-based compensation expenses, antitrust litigation expenses (benefits), acquisition costs including amortization of intangible assets (net of minority interest effect), expenses for employee stock options that were converted to cash rights, impairments of long-lived assets (net of minority interest effect), and restructuring and other charges.

RealNetworks believes that the presentation of adjusted revenue, adjusted EBITDA, adjusted EBITDA excluding impairments, adjusted EBITDA excluding impairments by reporting segment, adjusted cost of revenue, gross margin excluding impairments and adjusted operating expenses 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 our past financial reports, and also facilitates comparisons with other companies in our industry, many of which use similar non-GAAP financial measures to supplement their GAAP results. Management has historically used these non-GAAP measures when evaluating operating performance because the inclusion or exclusion of the items described above provides additional useful measures of our operating results and facilitates comparisons of our core operating performance against prior periods and our business model objectives. We have 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 us with other companies, and as a supplemental means to evaluate our ongoing operations. In addition, RealNetworks believes that providing adjusted revenue allows investors to compare 2008 revenue with 2007 revenue in constant dollars, providing a more consistent view of revenue trends for its ongoing business. Externally, we believe that adjusted EBITDA and adjusted EBITDA excluding impairments are useful to investors in their assessment of our operating performance and the valuation of our company.

Internally, adjusted revenue, adjusted EBITDA, adjusted EBITDA excluding impairments, and adjusted EBITDA excluding impairments by reporting segment, adjusted cost of revenue, gross margin excluding impairments and adjusted operating expenses are significant measures used by management for purposes of:

- supplementing the financial results and forecasts reported to our board of directors;
- evaluating the operating performance of our company 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 long-lived assets; or not within management's control, such as significant fluctuations in foreign currencies;
- managing and comparing performance internally across our businesses and externally against our peers;
- establishing internal operating budgets; and

- evaluating and valuing potential acquisition candidates.

Adjusted revenue, adjusted EBITDA, adjusted EBITDA excluding impairments, adjusted EBITDA excluding impairments by reporting segment, adjusted cost of revenue, gross margin excluding impairments and adjusted operating expenses 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 our 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. We expect to continue to incur expenses similar to the non-GAAP adjustments described above, and exclusion of these items from our 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 our non-GAAP financial measures are:

- Adjusted EBITDA, adjusted EBITDA excluding impairments and adjusted EBITDA excluding impairments by reporting segment are measures that we have 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 our net income and net income per share. We compensate for these limitations by prominently disclosing GAAP net income (loss), which we believe is the most directly comparable GAAP measure, and providing investors with reconciliations from GAAP net income (loss) to adjusted EBITDA, adjusted EBITDA excluding impairments and adjusted EBITDA excluding impairments by reporting segment.
- Adjusted cost of revenue and gross margin excluding impairments are limited in that they do not include stock-based compensation expenses, certain costs associated with our acquisitions and certain impairment costs. Adjusted operating expenses are limited in that they do not include stock-based compensation expenses, antitrust litigation expenses (benefit), certain costs associated with our acquisitions, impairments of long-lived assets and restructuring and other charges. We compensate for these limitations by prominently disclosing the reported GAAP results and providing investors with a reconciliation from GAAP to the adjusted amount.

In the financial tables of our earnings press release, RealNetworks has included reconciliations of GAAP net income (loss) to adjusted EBITDA and adjusted EBITDA excluding impairments, income before income taxes to adjusted EBITDA excluding impairments by reporting segment, GAAP cost of revenue to adjusted cost of revenue and GAAP operating expenses to adjusted operating expenses for the relevant periods.

**Forward Looking Statements:** This press release contains forward-looking statements that involve risks and uncertainties, including statements relating to Real's current expectations for future revenue, future affects of foreign currency exchange rates, future accounting treatment of minority interests and future trends in consumer and corporate IT spending and online advertising. Actual results may differ materially from the results predicted. Factors that could cause actual results to differ from the results predicted include: potentially large changes in Real's GAAP tax rate that could result from even small changes in Real's pretax earnings; fluctuations in foreign currencies, particularly changes in the US dollar relative to the euro and the Korean won; development and consumer acceptance of legal online music distribution services generally and RealNetworks' content services in particular because these are relatively new and unproven business models and markets; risks associated with the creation and operation of Rhapsody America; risks associated with acquisitions generally, and the acquisitions of WiderThan, Sony NetServices, Game Trust, Trymedia and Exomi in particular, including the risks of integration, unknown liabilities and operations in new markets and geographies; the potential that we will be unable to continue to enter into commercially attractive agreements with third parties for the provision of compelling content for our subscription service offerings and the distribution of our carrier application services; the emergence of new entrants and competition in the market for digital media subscription offerings and online music sales; competitive risks, including competing technologies, products and services, and the competitive activities of our larger competitors, some of which have strong ties to streaming media users through other products; the potential outcomes and effects of claims and legal proceedings on our business, prospects, financial condition or results of operations; risks associated with the introduction of new products and services; changes in consumer and advertising spending in response to disruptions in the global financial markets; risks inherent in strategic relationships, especially with competitors, and technology and service integration efforts; and risks relating to the ability of Real's strategic partners to generate subscribers for Real's digital content services. 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, and its quarterly reports on Form 10-Q and from time to time in other reports filed by RealNetworks with the Securities and Exchange Commission. The preparation of our financial statements and forward-looking financial guidance requires us to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amounts of revenues and 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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