



November 3, 2016

RealNetworks Announces Third Quarter 2016 Results

- Revenue of \$31.1 million, up 4% from the prior quarter;
- GAAP net loss and adjusted EBITDA improve by 86% and 59%, respectively, year over year;
- Cash and short-term investments increases to \$80.7 million; and
- Operating results led by GameHouse's 14% growth from the prior quarter -- New game titles performing strongly

SEATTLE, Nov. 3, 2016 /PRNewswire/ -- RealNetworks, Inc. (Nasdaq: RNWK), a leader in personal digital entertainment, today announced results for the third quarter ended September 30, 2016.

For the third quarter of 2016, revenue was \$31.1 million, up 4% from \$29.7 million in the previous quarter and up 4% from \$29.8 million in the third quarter of 2015, excluding revenue from the social casino games business, which was sold during the third quarter of 2015.

GAAP net loss for the third quarter of 2016 was \$(3.1) million or \$(0.08) per share, which improved by 86% compared to \$(21.2) million or \$(0.59) per share in the third quarter of 2015. Adjusted EBITDA for the third quarter of 2016 was a loss of \$(4.4) million, which improved by 59% compared to \$(10.9) million for the third quarter of 2015, excluding the results in the prior period of the social casino games business. Adjusted EBITDA improved due to significant reductions in ongoing operating expenses. The GAAP results for the third quarter of 2016 also benefitted by \$6.0 million of gain on payment received from the sale of the social casino games business and from the recent sale of another non-strategic asset. A reconciliation of GAAP net income (loss) to adjusted EBITDA is provided in the financial tables that accompany this release.

"For 2016 we established three major financial goals. We're on course to achieve two of them," said Rob Glaser, Chairman and CEO of RealNetworks. "We've stabilized our businesses and have begun to see revenue growth.

"We're particularly pleased with the strong performance of our new first-party titles in our GameHouse unit, with sales up 14% sequentially, as we continue to ramp up production of high quality games. We're also continuing to roll out the integration of our mobile products with carriers like Vivo, Verizon, and Vodafone.

"Our third financial goal of the company was to return to profitability by the end of the year. While we have significantly reduced our costs, EBITDA loss and cash consumption - in fact in Q3 we increased our cash position by \$2.0 million, we do not currently expect to return to EBITDA profitability in 2016. While we are not making this change lightly, we think we're making the right mid- to long-term tradeoff by making measured investments to drive our future growth and profitability."

As of September 30, 2016, the Company had \$80.7 million in unrestricted cash, cash equivalents and short-term investments, up from \$78.8 million as of June 30, 2016.

Business Outlook

For the fourth quarter of 2016, RealNetworks expects total revenue in the range of \$29 million to \$32 million and an adjusted EBITDA loss for the fourth 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 888-790-3440 or +1-517-308-9350 (Passcode: Third Quarter Earnings). 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 10:59 p.m. PT, November 24, 2016 by calling 866-509-6763 or +1-203-369-1928 (Passcode: 1132016).

For More Information

Investor Relations for RealNetworks
+1-206-729-3625

RNWK-F

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.

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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 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.

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

| | Quarters Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2016 | 2015 | 2016 | 2015 |

(in thousands, except per share data)

| | | | | |
|-------------|-----------|-----------|-----------|-----------|
| Net revenue | \$ 31,051 | \$ 30,823 | \$ 89,015 | \$ 95,374 |
|-------------|-----------|-----------|-----------|-----------|

| | | | | |
|--|------------|-------------|-------------|-------------|
| Cost of revenue | 16,740 | 18,090 | 47,610 | 54,469 |
| Gross profit | 14,311 | 12,733 | 41,405 | 40,905 |
| Operating expenses: | | | | |
| Research and development | 6,699 | 10,501 | 23,185 | 34,681 |
| Sales and marketing | 7,183 | 11,938 | 24,157 | 38,822 |
| General and administrative | 7,086 | 7,021 | 21,380 | 21,312 |
| Restructuring and other charges | 499 | 3,114 | 1,297 | 5,563 |
| Lease exit and related charges | 1,233 | 2,121 | 2,191 | 2,208 |
| Total operating expenses | 22,700 | 34,695 | 72,210 | 102,586 |
| Operating income (loss) | (8,389) | (21,962) | (30,805) | (61,681) |
| Other income (expenses): | | | | |
| Interest income, net | 119 | 147 | 316 | 597 |
| Gain (loss) on investments, net | 6,021 | (615) | 5,978 | (222) |
| Equity in net loss of Rhapsody | (233) | (735) | (629) | (13,831) |
| Other income (expense), net | (243) | 297 | (515) | 628 |
| Total other income (expense), net | 5,664 | (906) | 5,150 | (12,828) |
| Income (loss) before income taxes | (2,725) | (22,868) | (25,655) | (74,509) |
| Income tax expense (benefit) | 331 | (1,684) | 919 | (1,075) |
| Net income (loss) | \$ (3,056) | \$ (21,184) | \$ (26,574) | \$ (73,434) |
| Basic net income (loss) per share | \$ (0.08) | \$ (0.59) | \$ (0.72) | \$ (2.03) |
| Diluted net income (loss) per share | \$ (0.08) | \$ (0.59) | \$ (0.72) | \$ (2.03) |
| Shares used to compute basic net income (loss) per share | 36,805 | 36,191 | 36,693 | 36,134 |
| Shares used to compute diluted net income (loss) per share | 36,805 | 36,191 | 36,693 | 36,134 |

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

| | September 30, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| | (in thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 38,284 | \$ 47,315 |
| Short-term investments | 42,465 | 51,814 |
| Trade accounts receivable, net | 25,287 | 22,511 |
| Deferred costs, current portion | 852 | 460 |
| Prepaid expenses and other current assets | 5,166 | 7,140 |
| Total current assets | 112,054 | 129,240 |
| Equipment and software | 57,014 | 66,702 |
| Leasehold improvements | 3,204 | 3,122 |
| Total equipment, software, and leasehold improvements | 60,218 | 69,824 |
| Less accumulated depreciation and amortization | 54,339 | 61,024 |
| Net equipment, software, and leasehold improvements | 5,879 | 8,800 |
| Restricted cash equivalents and investments | 2,700 | 2,890 |
| Available for sale securities | 2,041 | 1,721 |
| Other assets | 1,908 | 2,307 |
| Deferred costs, non-current portion | 1,236 | 212 |
| Deferred tax assets, net | 1,015 | 957 |
| Other intangible assets, net | 1,224 | 2,136 |

| | | |
|--------------|-------------------|-------------------|
| Goodwill | 12,974 | 13,080 |
| Total assets | <u>\$ 141,031</u> | <u>\$ 161,343</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|-------------------|-------------------|
| Current liabilities: | | |
| Accounts payable | \$ 18,379 | \$ 17,050 |
| Accrued and other current liabilities | 16,547 | 17,320 |
| Deferred revenue, current portion | <u>3,883</u> | <u>3,497</u> |
| Total current liabilities | 38,809 | 37,867 |
| Deferred revenue, non-current portion | 343 | 105 |
| Deferred rent | 504 | 620 |
| Deferred tax liabilities, net | 100 | 88 |
| Other long-term liabilities | <u>1,935</u> | <u>1,980</u> |
| Total liabilities | 41,691 | 40,660 |
| Shareholders' equity | <u>99,340</u> | <u>120,683</u> |
| Total liabilities and shareholders' equity | <u>\$ 141,031</u> | <u>\$ 161,343</u> |

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

| | Nine Months Ended | |
|---|--------------------------|-----------------|
| | September 30, | |
| | 2016 | 2015 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (26,574) | \$ (73,434) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 5,897 | 7,952 |
| Stock-based compensation | 4,557 | 3,761 |
| Equity in net loss of Rhapsody | 629 | 13,831 |
| Deferred income taxes, net | (198) | (1,531) |
| Loss (gain) on investments, net | (5,978) | 222 |
| Realized translation loss (gain) | 272 | (264) |
| Fair value of warrants granted in 2015, net of subsequent mark to market adjustments in 2016 and 2015 | 112 | (1,078) |
| Net change in certain operating assets and liabilities | <u>(1,011)</u> | <u>(5,428)</u> |
| Net cash provided by (used in) operating activities | <u>(22,294)</u> | <u>(55,969)</u> |
| Cash flows from investing activities: | | |
| Purchases of equipment, software, and leasehold improvements | (2,009) | (1,110) |
| Proceeds from sale of equity and other investments | 2,110 | 459 |
| Purchases of short-term investments | (59,124) | (52,475) |
| Proceeds from sales and maturities of short-term investments | 68,473 | 60,516 |
| Decrease (increase) in restricted cash equivalents and investments, net | 190 | — |
| Acquisitions | (150) | (161) |
| Advance to Rhapsody | — | (5,000) |
| Receipt of payment from Rhapsody | — | 5,000 |
| Proceeds from the sale of Slingo and social casino business | <u>4,000</u> | <u>10,000</u> |
| Net cash provided by (used in) investing activities | <u>13,490</u> | <u>17,229</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock (stock options and stock purchase plan) | 166 | 297 |
| Tax payments from shares withheld upon vesting of restricted stock | <u>(843)</u> | <u>(69)</u> |
| Net cash provided by (used in) financing activities | <u>(677)</u> | <u>228</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>450</u> | <u>(2,910)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(9,031)</u> | <u>(41,422)</u> |

| | | |
|--|-----------|-----------|
| Cash and cash equivalents, beginning of period | 47,315 | 103,253 |
| Cash and cash equivalents, end of period | \$ 38,284 | \$ 61,831 |

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

| | 2016 | | | 2015 | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| (in thousands) | | | | | | | |
| Net Revenue by Line of Business | | | | | | | |
| Consumer Media (A) | \$ 6,482 | \$ 6,400 | \$ 5,726 | \$ 6,848 | \$ 6,495 | \$ 7,281 | \$ 7,989 |
| Mobile Services (B) | 17,683 | 17,297 | 16,465 | 16,369 | 16,484 | 18,578 | 14,504 |
| Games (C) | 6,886 | 6,037 | 6,039 | 6,705 | 7,844 | 8,095 | 8,104 |
| Total net revenue | \$ 31,051 | \$ 29,734 | \$ 28,230 | \$ 29,922 | \$ 30,823 | \$ 33,954 | \$ 30,597 |
| Net Revenue by Product | | | | | | | |
| <u>Consumer Media</u> | | | | | | | |
| - License (D) | \$ 4,136 | \$ 3,914 | \$ 3,104 | \$ 3,967 | \$ 3,628 | \$ 4,208 | \$ 4,672 |
| - Subscriptions (E) | 1,931 | 1,871 | 1,975 | 2,054 | 2,147 | 2,372 | 2,384 |
| - Media Properties (F) | 415 | 615 | 647 | 827 | 720 | 701 | 933 |
| <u>Mobile Services</u> | | | | | | | |
| - SaaS (G) | 17,141 | 17,208 | 16,220 | 16,157 | 16,217 | 18,218 | 13,322 |
| - Technology License & Other (H) | 542 | 89 | 245 | 212 | 267 | 360 | 1,182 |
| <u>Games</u> | | | | | | | |
| - License (I) | 3,683 | 2,793 | 2,761 | 3,268 | 4,128 | 3,943 | 3,835 |
| - Subscriptions (J) | 3,005 | 3,024 | 3,029 | 3,126 | 3,231 | 3,373 | 3,570 |
| - Media Properties (K) | 198 | 220 | 249 | 311 | 485 | 779 | 699 |
| Total net revenue | \$ 31,051 | \$ 29,734 | \$ 28,230 | \$ 29,922 | \$ 30,823 | \$ 33,954 | \$ 30,597 |
| Net Revenue by Geography | | | | | | | |
| United States | \$ 10,642 | \$ 10,355 | \$ 10,383 | \$ 10,781 | \$ 11,460 | \$ 12,303 | \$ 12,349 |
| Rest of world | 20,409 | 19,379 | 17,847 | 19,141 | 19,363 | 21,651 | 18,248 |
| Total net revenue | \$ 31,051 | \$ 29,734 | \$ 28,230 | \$ 29,922 | \$ 30,823 | \$ 33,954 | \$ 30,597 |

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 games licenses, online games subscription services, advertising on games sites and social network sites, microtransactions from online and social games, and sales of mobile 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 and social 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)

| | 2016 | | 2015 | | 2015 | |
|--|----------------|------------|------------|-------------|-------------|--|
| | Q3 | Q2 | Q3 | YTD | YTD | |
| | (in thousands) | | | | | |
| Consumer Media | | | | | | |
| Net revenue | \$ 6,482 | \$ 6,400 | \$ 6,495 | \$ 18,608 | \$ 21,765 | |
| Cost of revenue | 1,507 | 1,561 | 3,142 | 5,485 | 10,173 | |
| Gross profit | 4,975 | 4,839 | 3,353 | 13,123 | 11,592 | |
| Gross margin | 77 % | 76 % | 52 % | 71 % | 53 % | |
| Operating expenses | 4,271 | 4,293 | 6,421 | 13,940 | 19,882 | |
| Operating income (loss), a GAAP measure | \$ 704 | \$ 546 | \$ (3,068) | \$ (817) | \$ (8,290) | |
| Depreciation and amortization | 295 | 375 | 519 | 1,973 | 1,508 | |
| Contribution margin, a non-GAAP measure | \$ 999 | \$ 921 | \$ (2,549) | \$ 1,156 | \$ (6,782) | |
| Mobile Services | | | | | | |
| Net revenue | \$ 17,683 | \$ 17,297 | \$ 16,484 | \$ 51,445 | \$ 49,566 | |
| Cost of revenue | 13,026 | 12,404 | 12,512 | 36,347 | 36,802 | |
| Gross profit | 4,657 | 4,893 | 3,972 | 15,098 | 12,764 | |
| Gross margin | 26 % | 28 % | 24 % | 29 % | 26 % | |
| Operating expenses | 8,075 | 8,784 | 11,093 | 26,653 | 35,153 | |
| Operating income (loss), a GAAP measure | \$ (3,418) | \$ (3,891) | \$ (7,121) | \$ (11,555) | \$ (22,389) | |
| Acquisitions related intangible asset amortization | 208 | 209 | 389 | 725 | 1,165 | |
| Depreciation and amortization | 403 | 608 | 493 | 1,433 | 1,652 | |
| Contribution margin, a non-GAAP measure | \$ (2,807) | \$ (3,074) | \$ (6,239) | \$ (9,397) | \$ (19,572) | |
| Games | | | | | | |
| Net revenue | \$ 6,886 | \$ 6,037 | \$ 7,844 | \$ 18,962 | \$ 24,043 | |
| Cost of revenue | 2,203 | 1,817 | 2,513 | 5,865 | 7,593 | |
| Gross profit | 4,683 | 4,220 | 5,331 | 13,097 | 16,450 | |
| Gross margin | 68 % | 70 % | 68 % | 69 % | 68 % | |
| Operating expenses | 4,649 | 4,725 | 6,431 | 14,669 | 23,833 | |
| Operating income (loss), a GAAP measure | \$ 34 | \$ (505) | \$ (1,100) | \$ (1,572) | \$ (7,383) | |
| Acquisitions related intangible asset amortization | 29 | 34 | 170 | 88 | 775 | |
| Depreciation and amortization | 104 | 154 | 214 | 437 | 755 | |
| Contribution margin, a non-GAAP measure | \$ 167 | \$ (317) | \$ (716) | \$ (1,047) | \$ (5,853) | |
| Corporate | | | | | | |
| Cost of revenue | \$ 4 | \$ (84) | \$ (77) | \$ (87) | \$ (99) | |
| Gross profit | (4) | 84 | 77 | 87 | 99 | |
| Gross margin | N/A | N/A | N/A | N/A | N/A | |

| | | | | | |
|---|------------|------------|-------------|-------------|-------------|
| Operating expenses | 5,705 | 3,871 | 10,750 | 16,948 | 23,718 |
| Operating income (loss), a GAAP measure | \$ (5,709) | \$ (3,787) | \$ (10,673) | \$ (16,861) | \$ (23,619) |
| Other income (expense), net | (243) | 15 | 297 | (515) | 628 |
| Depreciation and amortization | 634 | 246 | 1,273 | 1,241 | 2,097 |
| Restructuring and other charges | 499 | 413 | 3,114 | 1,297 | 5,563 |
| Stock-based compensation | 778 | 608 | 1,178 | 4,557 | 3,761 |
| Lease exit and related charges | 1,233 | 127 | 2,121 | 2,191 | 2,208 |
| Contribution margin, a non-GAAP measure | \$ (2,808) | \$ (2,378) | \$ (2,690) | \$ (8,090) | \$ (9,362) |

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

| | 2016 | | 2015 | 2016 | 2015 |
|--|------|----|------|------|------|
| | Q3 | Q2 | Q3 | YTD | YTD |

(in thousands)

Reconciliation of GAAP operating income (loss) to adjusted EBITDA:

| | | | | | |
|--|------------|------------|-------------|-------------|-------------|
| Net income (loss) | \$ (3,056) | \$ (8,347) | \$ (21,184) | \$ (26,574) | \$ (73,434) |
| Income tax expense (benefit) | 331 | 363 | (1,684) | 919 | (1,075) |
| Interest income, net | (119) | (80) | (147) | (316) | (597) |
| Gain (loss) on investments, net | (6,021) | 46 | 615 | (5,978) | 222 |
| Equity in net loss of Rhapsody | 233 | 396 | 735 | 629 | 13,831 |
| Acquisitions related intangible asset amortization | 237 | 243 | 559 | 813 | 1,940 |
| Depreciation and amortization | 1,436 | 1,383 | 2,499 | 5,084 | 6,012 |
| Restructuring and other charges | 499 | 413 | 3,114 | 1,297 | 5,563 |
| Stock-based compensation | 778 | 608 | 1,178 | 4,557 | 3,761 |
| Lease exit and related charges | 1,233 | 127 | 2,121 | 2,191 | 2,208 |
| Adjusted EBITDA, a non-GAAP measure | \$ (4,449) | \$ (4,848) | \$ (12,194) | \$ (17,378) | \$ (41,569) |

To view the original version on PR Newswire, visit: <http://www.prnewswire.com/news-releases/realnetworks-announces-third-quarter-2016-results-300357091.html>

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