

REALNETWORKS INC
Form 10-Q
May 08, 2013

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2013

OR

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

For the transition period from _____ to _____
Commission file number 0-23137

RealNetworks, Inc.
(Exact name of registrant as specified in its charter)

Washington 91-1628146
(State of incorporation) (I.R.S. Employer Identification Number)

2601 Elliott Avenue, Suite 1000 98121
Seattle, Washington
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

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

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

The number of shares of the registrant's Common Stock outstanding as of April 30, 2013 was 35,427,190.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REALNETWORKS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 136,694	\$ 163,198
Short-term investments	123,894	108,216
Trade accounts receivable, net of allowances	28,718	30,754
Deferred costs, current portion	1,297	825
Deferred tax assets, current	2,759	2,869
Prepaid expenses and other current assets	13,266	17,002
Total current assets	306,628	322,864
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	95,918	98,041
Leasehold improvements	22,705	22,767
Total equipment, software, and leasehold improvements, at cost	118,623	120,808
Less accumulated depreciation and amortization	92,020	91,492
Net equipment, software, and leasehold improvements	26,603	29,316
Restricted cash equivalents and investments	10,000	10,000
Equity method investment	16,710	19,204
Available for sale securities	38,608	34,334
Other assets	3,331	3,153
Deferred costs, non-current portion	802	531
Deferred tax assets, net, non-current portion	4,803	4,911
Other intangible assets, net	2,837	3,275
Goodwill	6,410	6,309
Total assets	\$416,732	\$433,897
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 16,910	\$ 19,013
Accrued and other current liabilities	51,847	57,530
Deferred revenue, current portion	8,846	8,675
Total current liabilities	77,603	85,218
Deferred revenue, non-current portion	169	169
Deferred rent	2,026	2,250
Deferred tax liabilities, net, non-current portion	432	432
Other long-term liabilities	2,417	3,100
Total liabilities	82,647	91,169
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.001 par value, no shares issued and outstanding:		
Series A: authorized 200 shares	—	—
Undesignated series: authorized 59,800 shares	—	—
Common stock, \$0.001 par value authorized 250,000 shares; issued and outstanding 35,380 shares in 2013 and 35,324 shares in 2012	35	35

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Additional paid-in capital	605,402	603,770	
Accumulated other comprehensive loss	(25,141) (26,540)
Retained deficit	(246,211) (234,537)
Total shareholders' equity	334,085	342,728	
Total liabilities and shareholders' equity	\$416,732	\$433,897	

See accompanying notes to unaudited condensed consolidated financial statements.

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REALNETWORKS, INC. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

	Quarter Ended	
	March 31,	
	2013	2012
Net revenue (A)	\$56,793	\$66,964
Cost of revenue (B)	20,506	27,427
Gross profit	36,287	39,537
Sale of patents and other technology assets, net of costs (See Note 1)	—	(1,580)
Operating expenses:		
Research and development	15,251	17,818
Sales and marketing	21,134	23,796
General and administrative	9,946	13,276
Restructuring and other charges	1,382	1,609
Total operating expenses	47,713	56,499
Operating income (loss)	(11,426)	(18,542)
Other income (expenses):		
Interest income, net	647	644
Equity in net loss of Rhapsody investment	(2,233)	(368)
Other income (expense), net	109	1,475
Total other income (expenses), net	(1,477)	1,751
Income (loss) before income taxes	(12,903)	(16,791)
Income tax expense (benefit)	(1,229)	224
Net income (loss)	\$(11,674)	\$(17,015)
Basic net income (loss) per share	\$(0.33)	\$(0.49)