

REALNETWORKS INC  
Form 10-Q  
August 07, 2014

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 June 30, 2014

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)

1501 First Avenue South, Suite 600 98134  
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 July 31, 2014 was 35,995,569.

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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)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 124,450	\$ 151,235
Short-term investments	70,583	74,920
Trade accounts receivable, net of allowances	21,580	24,613
Deferred costs, current portion	992	1,601
Deferred tax assets, current	311	306
Prepaid expenses and other current assets	9,910	9,124
Total current assets	227,826	261,799
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	86,755	86,721
Leasehold improvements	3,915	3,482
Total equipment, software, and leasehold improvements, at cost	90,670	90,203
Less accumulated depreciation and amortization	70,212	67,031
Net equipment, software, and leasehold improvements	20,458	23,172
Restricted cash equivalents and investments	3,000	3,000
Equity method investment	10,000	12,473
Available for sale securities	3,182	7,181
Other assets	3,073	2,332
Deferred costs, non-current portion	1,062	946
Deferred tax assets, net, non-current portion	1,405	1,409
Other intangible assets, net	11,928	12,993
Goodwill	18,005	17,476
Total assets	\$ 299,939	\$ 342,781
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 20,363	\$ 19,987
Accrued and other current liabilities	26,874	41,893
Deferred tax liabilities, net, current portion	911	899
Deferred revenue, current portion	7,835	7,498
Total current liabilities	55,983	70,277
Deferred revenue, non-current portion	145	166
Deferred rent	1,269	1,318
Deferred tax liabilities, net, non-current portion	1,725	1,556
Other long-term liabilities	607	483
Total liabilities	59,729	73,800
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	—	—
	36	36

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Common stock, \$0.001 par value authorized 250,000 shares; issued and outstanding 35,992 shares in 2014 and 35,833 shares in 2013

Additional paid-in capital	613,617	610,167	
Accumulated other comprehensive loss	(51,117)	(47,695)	)
Retained deficit	(322,326)	(293,527)	)
Total shareholders' equity	240,210	268,981	
Total liabilities and shareholders' equity	\$299,939	\$342,781	

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)

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net revenue (A)	\$40,825	\$49,850	\$86,549	\$106,643
Cost of revenue (B)	20,786	19,519	39,572	40,025
Extinguishment of liability (See Note 10)	—	—	(10,580 )	—
Gross profit	20,039	30,331	57,557	66,618
Operating expenses:				
Research and development	13,267	14,993	27,326	30,244
Sales and marketing	16,016	19,269	37,739	40,403
General and administrative	8,577	8,691	17,894	18,637
Restructuring and other charges	541	816	1,757	2,198
Lease exit and related charges	470	3,066	549	3,066
Total operating expenses	38,871			