REALNETWORKS INC
Form 10-Q
November 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
 FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2016
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 Seattle, Washington	98134
(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 ý   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 ý   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   ý

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 ý
The number of shares of the registrant's Common Stock outstanding as of October 31, 2016 was 36,971,291.

2

TABLE OF CONTENTS

2

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
REALNETWORKS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,284	$ 47,315
Short-term investments	42,465	51,814
Trade accounts receivable, net of allowances	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, software, and leasehold improvements, at cost:		
Equipment and software	57,014	66,702
Leasehold improvements	3,204	3,122
Total equipment, software, and leasehold improvements, at cost	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	$ 141,031	$ 161,343
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	3,883	3,497
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	1,935	1,980
Total liabilities	41,691	40,660
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 36,829 shares in 2016 and 36,298 shares in 2015	37	36
Additional paid-in capital	631,824	627,316

Accumulated other comprehensive loss	(58,758	)	(59,480	)
Retained deficit	(473,763	)	(447,189	)
Total shareholders' equity	99,340		120,683	
Total liabilities and shareholders' equity	$ 141,031		$ 161,343	

See accompanying notes to unaudited condensed consolidated financial statements.

3

REALNETWORKS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenue (A)	$31,051	$30,823	$89,015	$95,374
Cost of revenue (B)	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)	