

REALNETWORKS INC

Form 10-K

February 29, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2015

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

(206) 674-2700

(Address of principal executive offices, zip code, telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, Par Value \$0.001 per share

The NASDAQ Stock Market

Preferred Share Purchase Rights

The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Act. Yes  No

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 website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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):

Edgar Filing: REALNETWORKS INC - Form 10-K

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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 aggregate market value of the common stock held by non-affiliates of the registrant was \$126 million on June 30, 2015, based on the closing price of the common stock on that date, as reported on the Nasdaq Global Select Market. Shares held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates. In the case of 10% or greater shareholders, we have not deemed such shareholders to be affiliates unless there are facts and circumstances which would indicate that such shareholders exercise any control over our company. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's common stock outstanding as of February 25, 2016 was 36,686,133.

**DOCUMENTS INCORPORATED BY REFERENCE**

The registrant has incorporated by reference the information required by Part III of this Annual Report from its Proxy Statement relating to its 2016 Annual Meeting of Shareholders or an amendment to this Form 10-K, to be filed within 120 days after the end of its fiscal year ended December 31, 2015.

---

## TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	<u>4</u>
Item 1A. <u>Risk Factors</u>	<u>7</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>16</u>
Item 2. <u>Properties</u>	<u>16</u>
Item 3. <u>Legal Proceedings</u>	<u>16</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>16</u>
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	<u>17</u>
Item 6. <u>Selected Financial Data</u>	<u>18</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>32</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>33</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>62</u>
Item 9A. <u>Controls and Procedures</u>	<u>62</u>
Item 9B. <u>Other Information</u>	<u>62</u>
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>62</u>
Item 11. <u>Executive Compensation</u>	<u>62</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	<u>63</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>63</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>64</u>
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>64</u>
<u>Signatures</u>	<u>65</u>
<u>Exhibit Index</u>	<u>66</u>

PART I.

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, and projections about RealNetworks' industry, products, management's beliefs, and certain assumptions made by management. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. All statements contained in this report that do not relate to matters of historical fact should be considered forward-looking statements. Forward-looking statements include statements with respect to:

- the expected benefits and other consequences of our growth plans, strategic initiatives, and restructurings;
- our expected introduction, and related monetization, of new and enhanced products, services and technologies across our businesses;
- future revenues, operating expenses, income and other taxes, tax benefits, net income (loss) per diluted share available to common shareholders, acquisition costs and related amortization, and other measures of results of operations;
- the effects of our past acquisitions and expectations for future acquisitions and divestitures;
- plans, strategies and expected opportunities for future growth, increased profitability and innovation;
- the expected financial position, performance, growth and profitability of, and investment in, our businesses and the availability of resources;
- the effects of legislation, regulations, administrative proceedings, court rulings, settlement negotiations and other factors that may impact our businesses;
- the continuation and expected nature of certain customer relationships;
- impacts of competition and certain customer relationships on the future financial performance and growth of our businesses;
- our involvement in potential claims, legal proceedings and government investigations, and the potential outcomes and effects of such potential claims, legal proceedings and governmental investigations on our business, prospects, financial condition or results of operations;
- the effects of U.S. and foreign income and other taxes on our business, prospects, financial condition or results of operations; and
- the effect of economic and market conditions on our business, prospects, financial condition or results of operations.

These statements are not guarantees of future performance and actual actions or results may differ materially. These statements are subject to certain risks, uncertainties and assumptions that are difficult to predict, including those noted in the documents incorporated herein by reference. Particular attention should also be paid to the cautionary language in Item 1A entitled "Risk Factors." RealNetworks undertakes no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise, unless required by law. Readers should, however, carefully review the risk factors included in other reports or documents filed by RealNetworks from time to time with the Securities and Exchange Commission, particularly the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Item 1. Business

Overview

RealNetworks creates innovative applications and services that make it easy to connect with and enjoy digital media. We invented the streaming media category in 1995 and continue to connect consumers with their digital media both directly and through partners, aiming to support every network, device, media type and social network. We provide the digital media services and products we create to consumers, mobile carriers and other businesses.

Consumers use our services and software to store, organize, play and manage their digital media content. Our consumer products and services include our photo and video sharing and storage application, our casual games, our direct-to-consumer ringback tone and productivity tool, and RealPlayer, our widely distributed media player. Network service providers, such as mobile carriers, use our products and services to create and deliver digital media and messaging services, such as ringback tones, music on demand, intercarrier messaging, and photo and video sharing technology for their subscribers.

We were incorporated in 1994 in the State of Washington. Our common stock is listed on The NASDAQ Stock Market under the symbol "RNWK."

In this Annual Report on Form 10-K for the year ended December 31, 2015, RealNetworks, Inc., together with its subsidiaries, is referred to as "RealNetworks", the "Company", "we", "us", or "our". "RealPlayer," and other trademarks of our appearing in this report are our property.

Segments

We manage our business and report revenue and operating income (loss) in three segments: (1) RealPlayer Group, (2) Mobile Entertainment, and (3) Games. We allocate certain corporate expenses which are directly attributable to supporting the business, including but not limited to a portion of finance, legal, human resources and headquarters facilities, to our reportable segments rather than retaining those expenses in our corporate segment.

RealPlayer Group

Our RealPlayer Group business primarily consists of our new photo and video sharing product, RealTimes, which was launched in the second quarter of 2015 and our RealPlayer media player software and related products and services. Within our RealPlayer Group, we have intensified our focus on leveraging current and prospective partners, especially wireless carriers, to increase distribution of RealTimes. In the fourth quarter of 2015 we entered into two new carrier agreements for our RealTimes product. We have continued to make progress in developing new partnerships to increase distribution of RealTimes.

Our RealPlayer media player software includes features and services that enable consumers to discover, play, download, manage and edit digital video, specifically, allowing them to stream audio and video, download and save photos and videos from the web, transfer and share content on social networks, and edit their own photo and video content. Building on this business, our new RealTimes product gives consumers even more options and control over their digital memories. With the RealTimes product, consumers can find, watch, save and share their photos and videos on multiple devices and across multiple platforms, as well as create photo and video collages, or RealTimes Stories.

In our RealPlayer segment, revenue is derived from sales of the premium version of our media player and from the distribution of third-party software products to consumers who wish to download additional applications when downloading our software products. We also generate revenue through our RealPlayer subscription products, including RealTimes and our SuperPass service. RealTimes is distributed both directly to consumers and through partners, such as our recently announced agreements with Verizon and KDDI. There is an entry-level free version for consumers, as well as a premium subscription version. SuperPass is our subscription service that provides consumers with access to a broad range of digital entertainment content for a monthly fee.

In addition to consumer products, we also license our technology to a variety of electronic equipment and microchip manufacturers who embed our codec in their phones, laptops, and smart TVs.

Mobile Entertainment

Mobile Entertainment consists primarily of the digital media services we provide to network service providers as software as a service (SaaS) offerings. The majority of revenues from this segment are in Asia and North America. These SaaS offerings, which include our ringback tone, intercarrier messaging, and music on demand services, as well as our call management product called LISTEN, are sold to a large number of mobile carriers worldwide, and our

music on demand services are principally sold in Korea. In connection with our SaaS services, we also offer business intelligence, subscriber management and billing for our carrier customers.

4

---

Our ringback tone services enable callers to hear subscriber-selected music instead of the traditional electronic ringing sound while waiting for the person they have called to answer. We primarily offer ringback tone services via carriers, where, in return for providing, operating and managing the ringback tone service for the carrier customers, we generally enter into revenue-sharing arrangements with the carriers based on monthly subscription fees, content download fees or a combination of such fees paid by subscribers. Our interactive and highly customizable LISTEN product takes the ringback tone service to a new level, allowing the subscriber to utilize the app as more of a time management and productivity tool.

Our intercarrier messaging services are delivered through various carrier partners within the U.S. and internationally. The revenue we earn from our intercarrier messaging service is subject to a revenue-sharing arrangement with our carrier partners.

Our music on demand services, provided through our partner in Korea, offer a wide range of songs for downloading or streaming to PCs and mobile devices through various payment arrangements.

#### Games

We own and operate a casual games service, offering casual games via digital downloads, online subscription play, third-party portals, social networks and mobile devices. Casual games typically have simple graphics, rules and controls and are quick to learn, and often include time-management, board, card, puzzle, word and hidden-object games.

We develop, publish, license and distribute casual games. We have a large and diverse portfolio of original games developed by our in-house game studios, games developed by us from content we license from other intellectual property holders, and games licensed to us by third parties that we distribute to our customers. We also partner with external game developers who develop games for us on an outsourced basis, which gives those developers access to our large distribution network in exchange for distribution rights to their games. We distribute games principally in North America, Europe and Latin America through our GameHouse and Zylom websites and through websites owned or managed by third parties.

Following the sale of our Slingo and social casino business, we monetize our games largely through sales of game licenses and subscriptions. We have adapted our games for play on mobile handsets, smartphones and tablets, which can be purchased in app stores. Consumers can also play and purchase games from our catalog of online and downloadable PC games. We typically introduce new games by offering a free trial before purchase on an individual basis or as part of one of our subscription services. In addition to revenue from sales of game licenses and subscriptions, we also generate revenue from display advertising that is shown to consumers during online play. Our Slingo and social casino games business which we sold in August 2015 generated much of its revenue through microtransactions and advertising. See Note 3. Acquisitions and Disposals for additional details on the sale.

See Note 18. Segment Information, in this Form 10-K for additional details on our segments.

#### Rhapsody

At December 31, 2015, we owned approximately 43% of the issued and outstanding stock of Rhapsody. See Note 4. Rhapsody Joint Venture, in this 10-K for additional details. Rhapsody provides music products and services that enable consumers to have access to digital music content from a variety of devices. The Rhapsody unlimited subscription service offers unlimited access to a catalog of tens of millions of music tracks by way of on-demand streaming and conditional downloads. Rhapsody also operates a radio-like service, branded as "UnRadio" in the U.S., through which users can listen to online radio stations based on selected artists or genres and download favorite tracks played on those stations for offline playback. Rhapsody currently offers music services in 32 different territories (under the Rhapsody or Napster brands) and generates revenue primarily through subscriptions to its music services either directly to consumers or through distribution partners, such as mobile carriers.

#### Customers

Our customers include consumers and businesses located throughout the world. Sales to customers outside the U.S., primarily in Asia and Europe, were 63%, 61% and 56% of our revenue during the years ended December 31, 2015, 2014 and 2013, respectively. See Note 18. Segment Information, for details on geographic concentrations and see Note 6. Allowance for Doubtful Accounts Receivable and Sales Returns, for details on customer revenue concentrations.

#### Research and Development

We devote a substantial portion of our resources to developing new products, enhancing existing products, expanding and improving our fundamental technology, and strengthening our technological expertise in all our businesses. During the years ended December 31, 2015, 2014, and 2013, we expended 35%, 34% and 30%, respectively, of our revenue on research and development activities.



### Sales, Marketing and Distribution

Our marketing programs are aimed at increasing brand awareness of our products and services and stimulating demand. We use a variety of methods to market our products and services, including paid search advertising, affiliate marketing programs, advertising in print, electronic and other online media, direct mail and email offers to qualified potential and existing customers, and providing product specific information through our websites. We also cross-market products and services offered by some of our businesses through the RealPlayer and Games marketing and distribution channels. We also have subsidiaries and offices in several countries that market and sell our products outside the U.S.

Our products and services are marketed through direct and indirect channels. We use public relations, trade shows, events and speaking opportunities to market our products and services. We also use a variety of online channels, including social media, to promote and sell our products and services directly.

We market and sell our RealPlayer services directly through our own websites such as Real.com, as well as indirectly through third party distribution partners.

Our Mobile Entertainment sales, marketing and business development team works closely with many of our enterprise, infrastructure, wireless, broadband and media customers to identify new business opportunities for our entertainment applications, services and systems. Through ongoing communications with the product and marketing divisions of our customers, we tailor our SaaS offerings to their strategic needs and the needs of their subscribers. Our games are marketed directly from our websites and through third-party distribution channels, such as mobile phone application stores, search engines, online portals, major social networks and content publishers.

### Customer Support

Customer support is integral to the provision of nearly all of our consumer products and services. Consumers who purchase and use our consumer software products and services can get assistance via the Internet, email or telephone, depending on the product or service. For most of our consumer products, we contract with third-party outsource support vendors to provide the primary staffing for our first-tier customer support globally. We also provide various support service options for our business customers and for software developers using our software products and associated services. Support service options include online support services, hotline telephone support, and on-site support personnel covering technical and business-related support topics.

### Competition

The market for software and services for digital media delivery over the Internet and wireless networks is intensely competitive. Many of our current and potential competitors have longer operating histories, greater name recognition or brand awareness, more employees or significantly greater resources than we do.

Our RealTimes product faces significant competition from both well known, firmly established companies and entrepreneurial, nimble startups who provide photo and video sharing services. In addition, as we continue to develop this product and expand its reach, we expect to see growing competition from companies offering innovative features for engaging with users' video content. Our RealPlayer media player continues to face competition from alternative streaming media playback technologies which have obtained very broad market penetration.

In our Mobile Entertainment segment, our SaaS business competes with a large and diverse number of domestic and international companies, and each of our SaaS offerings tends to face competitors specific to that product or service. Our SaaS business continues to experience significant competitive pricing pressure from carriers and the proliferation of smartphone applications and services, some of which do not depend on our carrier customers for distribution to consumers. Many of our SaaS services require a high degree of integration with carrier or service provider networks and thus require a high degree of operational expertise. In addition, our ability to enhance services with new features as the digital entertainment market evolves is critical to our competitive position, as is our knowledge of the consumer environment to which these services are targeted.

Our Games business competes with a variety of distributors, publishers and developers of casual games for mobile and PC platforms and for social networks. In addition, the market for casual games has become increasingly price competitive in recent years. Our in-house content development studios compete with other developers and publishers of social and mobile games based on our ability to develop and publish high quality games that resonate with consumers, our effectiveness at building our brands, and our ability to secure broad distribution. Our social and

mobile games compete with a range of developers. Our family of websites serving the PC casual games market competes with other high volume distribution channels for downloadable, online and social games.

6

---

### Intellectual Property

As of December 31, 2015, we had 10 U.S. patents, 53 South Korean patents, 24 patents in other countries and more than 30 pending patent applications worldwide relating to various aspects of our technology. In 2012, we completed the sale of certain patents, patent applications and related rights held by us, and certain of our assets relating to our next generation video codec technologies to Intel. We regularly analyze our patent portfolio and prepare additional patent applications on current and anticipated features of our technology in various jurisdictions across the world. In addition to our patent portfolio, we have assembled, over time, an international portfolio of trademarks and service marks that covers certain of our products and services. We also have applications pending for additional trademarks and service marks in jurisdictions around the world, and have several unregistered trademarks. Many of our marks begin with the word “Real” (such as RealPlayer). We are aware of other companies that use “Real” in their marks alone or in combination with other words, and we do not expect to be able to prevent all third-party uses of the word “Real” for all goods and services.

Our ability to compete across our businesses partly depends on the superiority, uniqueness and value of the technology that we both develop and license from third parties. To protect our proprietary rights, we rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with our employees and third parties, and protective contractual provisions. These efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology, or may not prevent the development and design by others of products or technologies similar to or competitive with those we develop.

### Employees

At December 31, 2015, we had approximately 579 employees, of which 201 were based in the Americas, 174 were based in Asia, and 204 were based in Europe. None of our employees are subject to a collective bargaining agreement.

### Position on Charitable Responsibility

In periods when we have achieved sustained profitability, we intend to donate 5% of our net income to charitable organizations, which will reduce our net income for those periods. The non-profit RealNetworks Foundation, established in 2001, manages a substantial portion of our charitable giving efforts. Through the Foundation, we support our employees' philanthropic efforts by matching their donations of time and money to charitable organizations.

### Available Information

Our corporate Internet address is [www.realnetworks.com](http://www.realnetworks.com). We make available free of charge on [www.investor.realnetworks.com](http://www.investor.realnetworks.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). However, the information found on our corporate website is not part of this or any other report.

### Item 1A.

#### Risk Factors

You should carefully consider the risks described below together with all of the other information included in this Form 10-K. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the following risks actually occurs, our business, financial condition or operating results, and the trading price of our common stock, could be materially harmed.

Our business and financial results will be materially adversely impacted if we are unable to successfully implement our growth plans, strategic initiatives, and restructuring efforts.

Beginning in mid-2012, we developed a growth plan that involved the launch of at least one major new product in each of our three business units. This growth plan continues to evolve. We have also embarked upon strategic initiatives intended to simplify and accelerate our operations, and restructuring efforts intended to streamline costs and bring more focus to our businesses. The simultaneous execution of all of these measures is ambitious and we have not attempted to pursue this level of transition in our history. Further, as our focus has shifted to these growth initiatives, our legacy businesses have suffered. We can provide no assurance that we will be successful in implementing our growth plans, strategic initiatives, and restructuring efforts, either in a timely manner or at all, and our failure to do so would have a material adverse impact on our business and financial results. Moreover, the implementation of our

growth plans, strategic initiatives and restructuring efforts has required significant cash outlays, and we cannot guarantee that these expenditures will have the desired return or that our cash reserves will be sufficient for a successful transition.

7

---

We need to successfully monetize new products and services, whether directly or through partners, to sustain and grow our businesses.

In order to sustain our current level of business and to implement our growth plans, we must successfully monetize new products and services, whether directly to consumers or through new relationships with distribution partners. The process of developing and distributing products and services is complex, costly and uncertain, and is subject to a number of risks. Providing products and services that are attractive and useful to subscribers and consumers is in part subject to unpredictable and volatile factors beyond our control, including end-user preferences, competing products and services, and a limited number of dominant distribution partners. Any failure by us to timely respond to or accurately anticipate consumers' changing needs, emerging technological trends or important changes in the market or competition for products and services that we introduce, or that we have launched, could increase the current rate of decline in our market share or result in the loss of market opportunities. In addition, we must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether the products and services that we are developing will meet the needs of a large enough group of consumers, which may result in no return or a loss on our investments. Moreover, if we are unsuccessful in monetizing our new products and services, whether by selling them directly to consumers or through new relationships with distribution partners, including mobile carriers, our revenue will continue to decline and our business may suffer.

Over the past three years each of our businesses introduced at least one new product or service but, to date, we have not generated significant revenue from any of these products and services. Over the past three years, we have invested heavily in the development of these and other new products and enhanced features for such products, and we expect to continue to invest both in further development and in sales and marketing efforts aimed at monetizing certain of these products and services. If we are unable to generate sustained interest in these products and services, and therefore drive revenue growth, our financial results and cash position will continue to be materially negatively impacted. Furthermore, new products and services may be subject to legal challenge. Responding to any such claims may require us to enter into royalty and licensing agreements on unfavorable terms, require us to stop distributing or selling, or to redesign our products or services, or to pay damages, any of which could materially harm our operating results and our ability to grow our businesses.

Our legacy products and services face new and continuing challenges, causing our revenues to materially decline. As we increasingly focus our development and sales and marketing efforts on our more recently launched products and services, sales of our legacy products and services may continue to decline. For instance, while the efforts of our RealPlayer team are targeted increasingly towards enhanced development and monetization of our new RealTimes product, we have significantly reduced our marketing of SuperPass which has resulted in declines in the number of subscribers of this legacy product.

Our legacy products and services have historically been distributed through desktop computers and feature phones. However, the market for such products and services has been moving to smartphones and tablets, and although we've developed products and services for these emerging platforms, there is no guarantee that we will be successful. In addition, as new operating systems are introduced or updated for these platforms, we are likely to continue to face difficulties reaching our traditional customer base and other unknown distribution challenges.

Our restructuring efforts may not yield the anticipated benefits to our shareholders.

Since 2012, we have taken steps to restructure and simplify our business and operations. In September 2012, we announced plans to divisionalize our business, which we implemented during the first quarter of 2013, and to significantly reduce operating expenses, in part through a reduction in our workforce that was substantially concluded by the end of the second quarter of 2013. In August 2014, we announced a further reduction in our workforce and related cost reductions, and during the second quarter of 2015, we recorded \$2.0 million in severance and restructuring charges relating to additional workforce reductions. During the third quarter of 2015, we recorded another \$3.1 million in severance and restructuring costs related to further workforce reductions. We continue to assess opportunities to further streamline our operations and make our businesses more efficient. There can be no assurance, however, that our past or future restructuring efforts will be successful. Our business and operations may be harmed to the extent there is customer or employee uncertainty surrounding the future direction of our product and service

offerings and strategy for our businesses. Our restructuring activities have included implementing cost-cutting initiatives, which may not lead to future profitability and which could materially impact our ability to compete in future periods. If we are unable to effectively re-align the cost structure of our businesses or streamline and simplify our operations, our stock price may continue to be adversely affected, and we and our shareholders will not realize the anticipated financial, operational and other benefits from such initiatives.

8

---

Our businesses face substantial competitive challenges that may prevent us from being successful in those businesses, and may negatively impact future growth in those businesses.

Many of our current and potential competitors in our businesses have longer operating histories, greater name recognition, more employees and significantly greater resources than we do. To effectively compete in the markets for our products and services, we may experience the following consequences, any of which would adversely affect our operating results and the trading price of our stock:

- reduced prices or margins,
- loss of current and potential customers, or partners and potential partners who distribute our products and services or who provide content that we distribute to our customers,
- changes to our products, services, technologies, licenses or business practices or strategies,
- lengthened sales cycles,
- industry-wide changes in content distribution to customers or in trends in consumer consumption of digital media products and services,
- pressure to prematurely release products or product enhancements, or
- degradation in our stature or reputation in the market.

The market for mobile entertainment services, including our ringback tones and music on demand solutions, is highly competitive and evolving rapidly, particularly with the growth in the use of smartphones. Increased use of smartphones has resulted in a proliferation of applications and services that compete with our SaaS services and, in many cases, are not dependent upon our carrier customers to make them available to subscribers. Increased competition has in the past resulted in pricing pressure, forcing us to lower the selling price of our services. We expect this pricing pressure to continue to materially harm our operating results and financial condition.

Our recently launched RealTimes product faces strong competition from other cloud service providers, including some that are firmly established in the marketplace and have access to extensive resources, as well as video and photo sharing services. In addition, as we continue to develop this product and expand its reach, we have seen and expect to continue to see growing competition from companies offering innovative features for engaging with users' video content, some of which are offered free of charge. To be competitive, our RealTimes product must provide sufficiently engaging and compelling features and our brand and corporate image must be deemed by consumers as sufficiently safe and secure for storing their digital content. Our RealPlayer software services compete with alternative streaming media playback technologies and audio and video formats which have obtained broad market penetration. If we are unable to compete successfully, most notably through the development, marketing, distribution and monetization of RealTimes, our RealPlayer business could continue to decline.

The branded services in our Games business compete with other online aggregators and distributors of online, downloadable and social casual PC games. Some of these competitors have high volume distribution channels and greater financial resources than we do. Our Games business also competes with many other smaller companies that may be able to adjust to market conditions, including responding effectively to the growing popularity of casual games on social networks, faster than us. We also face significant price competition in the casual games market, and some of our competitors may be able to offer games for free, or reduce prices more aggressively than us. We expect competition to continue to intensify in this market from these and other competitors. Our games development studios compete primarily with other developers of online, downloadable, mobile and social casual PC games and must continue to develop popular and high-quality game titles. Our Games business must also continue to execute on opportunities to expand the play of our games on a variety of non-PC platforms, including social networks, in order to maintain our competitive position and to grow the business. If we are unable to slow the revenue declines or achieve future growth in our revenue, revenue in our Games business will continue to decline and the business will suffer. In August 2015, we completed the sale of our Slingo and social casino games business; however, we continue to operate our casual games business based in the Netherlands.

Contracts of our SaaS business with carrier customers subject us to significant risks that could negatively impact our revenue or otherwise harm our operating results.

We derive a material portion of our revenue from the SaaS offerings we provide to carriers. Many of our SaaS contracts with carriers provide for revenue sharing arrangements, but we have limited control over the pricing decisions of our carrier customers. Furthermore, most of these contracts do not provide for guaranteed minimum payments or usage levels. Because most of our carrier customer contracts are nonexclusive, it is possible that our mobile carrier customers could purchase similar services from third parties and cease to use our services in the future. As a result, our revenue derived under these agreements could be substantially reduced depending on the pricing and usage decisions of our carrier customers. In addition, some of our



SaaS contracts require us to incur significant set-up costs prior to the launch of services with a carrier customer. We may be required to record impairments or other charges in future periods related to our carrier customer contracts, which would negatively impact our results of operations.

In addition, none of our SaaS contracts with carriers obligates our carrier customers to market or distribute any of our SaaS offerings. Despite the lack of marketing commitments, revenue related to our SaaS offerings is, to a large extent, dependent upon the marketing and promotion activities of our carrier customers. In addition, many of our carrier contracts are short term and allow for early termination by the carrier with or without cause. These contracts are therefore subject to renegotiation of pricing or other key terms that could be adverse to our interests and leave us vulnerable to non-renewal by the carriers. The loss of carrier customers, a reduction in marketing or promotion of our SaaS offerings, or the termination, non-renewal or renegotiation of contract terms that are less favorable to us would result in the loss of future revenues from our SaaS offerings.

Finally, nearly all of our carrier contracts obligate us to indemnify the carrier customer for certain liabilities and losses incurred by them, including liabilities resulting from third party claims for damages that arise out of the use of our technology. These indemnification terms provide us with certain procedural safeguards, including the right to control the defense of the indemnified party. Pursuant to these indemnifications obligations, we have in the past agreed to control the defense on behalf of certain of our carrier customers related to patent infringement proceedings. In 2013, we settled two such litigation matters. Future claims against which we may be obligated to defend our carrier customers could result in payments that could materially harm our business and financial results.

A majority of the revenue that we generate in our Mobile Entertainment business segment is dependent upon our relationships with a few customers, and any deterioration of these relationships could materially harm our revenue. We generate a significant portion of our revenue from sales of our mobile entertainment services to a few of our mobile carrier customers and their affiliates. In the near term, we expect that we will continue to generate a significant portion of our total revenue from these customers. If these customers fail to market or distribute our services or terminate or fail to renew their business contracts with us, or if our relationships with these customers deteriorate in any significant way, we may be unable to replace the affected business arrangements with acceptable alternatives. Failure to maintain our relationships with these customers could have a material negative impact on our revenue and financial results.

We may not be successful in maintaining and growing our distribution of digital media products.

Maintaining and growing the distribution of digital media products through our websites and our other distribution channels has historically been important to our business, including growth through the introduction of new products and services distributed through these channels. Consumers are not downloading and using our digital media products consistent with past usage, so our ability to generate revenue from those products has been, and we expect will be continue to be, reduced, leading to lower than expected adoption of newly introduced products and services. Our inability to maintain continued high volume distribution of our digital media products could also continue to hold back the growth and development of related revenue streams from these market segments, including the distribution of third-party products and sales of our subscription services, and therefore harm our business and our prospects. Our revenue from the distribution of third-party products will also continue to be negatively impacted if those products are not more widely downloaded by consumers, including due to the relative market saturation of such products. Most of our revenue from the distribution of third-party products was historically derived from a single customer, however, that relationship ended during the third quarter of 2014, and we entered into an agreement with a new distribution partner. Our distribution revenue has been, and we expect will continue to be, materially negatively impacted by these factors.

Our operating results are difficult to predict and may fluctuate, which may contribute to continued weakness in our stock price.

The trading price for our common stock has a history of volatility. Our recent stock price history shows a more steady decline with a closing price of \$4.25 on December 31, 2015, and a range from \$3.75 to \$7.24 per share during the 52-week period ended December 31, 2015. As a result of the rapidly changing markets in which we compete, our

operating results may fluctuate or continue to decline from period to period, which may contribute to volatility or continued weakness of our stock price.

In past periods, our operating results have been affected by personnel reductions and related restructuring charges, lease exit and related charges, and impairment charges for certain of our equity investments, goodwill and other long-lived assets. In

addition to these factors, the general difficulty in forecasting our operating results and metrics could result in actual results that differ significantly from expected results, causing volatility and continued weakness in our stock price. Certain of our product and service investment decisions (for example, research and development and sales and marketing efforts) are based on predictions regarding business and the markets in which we compete. Fluctuations in our operating results, particularly when experienced beyond what we expected, could cause the trading price of our stock to fluctuate. Weakness in our operating performance is likely to cause continued weakness in our stock price.

Any impairment to our goodwill and definite-lived assets could result in a significant charge to our earnings. In accordance with accounting principles generally accepted in the United States, we are required to test goodwill for possible impairment on an annual basis based upon a fair value approach, or more frequently in the event of certain indications of possible impairment. We review definite-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in a reporting unit's market value, changes in our operating plans and forecasts, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of our business, a significant sustained decline in our market capitalization and other factors. If we were to determine that an impairment had occurred, we would be required to record an impairment charge, which could have a significant negative, and unpredicted, impact on our financial results. The total carrying value of our goodwill and definite-lived assets as of December 31, 2015 was \$24 million.

Continued loss of revenue from our subscription services may continue to harm our operating results. Our operating results have been and may continue to be adversely impacted by the loss of subscription revenue related to our legacy services. Subscribers may cancel their subscriptions to our services for many reasons, including a perception that they do not use the services sufficiently or that the service does not provide enough value, a lack of attractive or exclusive content generally or as compared with competitive service offerings, or because customer service issues are not satisfactorily resolved. Revenue from our SuperPass subscription service, for example, has declined in recent periods due to changes in consumer preferences and changes on our part to focus on other products and services we offer, and we expect these trends to continue.

Government regulation of the Internet is evolving, and unfavorable developments could have an adverse effect on our operating results.

We are subject to regulations and laws specific to the marketing, sale and delivery of goods and services over the Internet. These laws and regulations, which continue to evolve, cover taxation, user privacy, data collection and protection, copyrights, electronic contracts, sales procedures, automatic subscription renewals, credit card processing procedures, consumer protections, digital games distribution, broadband Internet access and content restrictions. We cannot guarantee that we have been or will be fully compliant in every jurisdiction, as it is not entirely clear how existing laws and regulations governing issues such as privacy, taxation and consumer protection apply or will be enforced with respect to the products and services we sell through the Internet. Moreover, as Internet commerce continues to evolve, increasing regulation and/or enforcement efforts by federal, state and foreign agencies and the prospects for private litigation claims related to our data collection, privacy policies or other e-commerce practices become more likely. In addition, the adoption of any laws or regulations or the imposition of other legal requirements that adversely affect our ability to market, sell, and deliver our products and services could decrease our ability to offer or customer demand for our service offerings, resulting in lower revenue. Future regulations, or changes in laws and regulations or their existing interpretations or applications, could also require us to change our business practices, raise compliance costs or other costs of doing business and result in additional historical or future liabilities for us, resulting in adverse impacts on our business and our operating results.

As a consumer-facing business, we receive complaints from our customers regarding our consumer marketing efforts and our customer service practices. Some of these customers may also complain to government agencies, and from time to time, those agencies have made inquiries to us about these practices. In addition, we may receive complaints or inquiries directly from governmental agencies that have not been prompted by consumers. In May of 2012, we resolved an investigation and complaint filed against us by the Washington State Office of the Attorney General, or

Washington AG, relating to our consumer marketing practices through the entry of a consent decree filed in King County, Washington Superior Court. While we resolved that matter, we cannot provide assurance that the Washington AG or other governmental agencies will not bring future claims regarding our marketing, or consumer services or other practices.

Global and national economic conditions have in the past and could in the future have a material adverse impact on our business, financial condition and results of operations.

Our business and operations depend significantly on global and national economic conditions. Because consumers may consider the purchase of our digital entertainment products and services to be a discretionary expenditure, their decision whether to purchase our products and services may be influenced by macroeconomic factors that affect consumer spending such as unemployment, access to credit, negative financial news, and declines in income. In addition, our carrier customers and business partners may reduce their business or advertising spending with us in the face of adverse macroeconomic conditions, such as financial market volatility, government austerity programs, tight credit, and declines in asset values. We have in the past recorded material asset impairment charges due in part to weakness in the global economy, and we may need to record additional impairments to our assets in future periods in the event of renewed weakness and uncertainty in the global or national economy. Accordingly, any significant weakness in the national and/or global economy could materially impact our business, financial condition and results of operations in a negative manner.

Rhapsody could continue to recognize losses, which would negatively impact our results of operations and financial condition.

On March 31, 2010, we completed the restructuring of our digital audio music service joint venture, Rhapsody America LLC. As a result of the restructuring, we no longer have operational control over Rhapsody and Rhapsody's operating performance is no longer consolidated with our consolidated financial statements. Rhapsody has generated accounting losses since its inception and we have recognized losses on our investment in the convertible preferred stock of Rhapsody since the restructuring. If Rhapsody continues to incur losses, or if it otherwise experiences a significant decline in its business, we could incur further losses on our investment, which could have an adverse effect on our financial condition and results of operations. See Note 4. Rhapsody Joint Venture, for further discussion. Additionally, given the current proportion of the outstanding equity of Rhapsody that we hold, we need to receive Rhapsody's unaudited quarterly financial statements and related information in order to timely prepare our quarterly consolidated financial statements and also to report certain of Rhapsody's financial results, as may be required, in our quarterly reports on Form 10-Q. In addition, we may be required to include Rhapsody's annual audited financial statements in our annual report on Form 10-K in future periods. As we no longer exert operational control over Rhapsody, we cannot guarantee that Rhapsody will deliver its financial statements and related information to us in a timely manner, or at all, or that the unaudited financial statement information provided by Rhapsody will not contain inaccuracies that are material to our reported results. Any failure to timely obtain Rhapsody's quarterly financial statements or to include its audited financial statements in our future annual reports on Form 10-K, if required, could cause our reports to be filed in an untimely manner, which would preclude us from utilizing certain registration statements and could negatively impact our stock price.

The continued loss of key personnel, or difficulty recruiting and retaining them, could significantly harm our business or jeopardize our ability to meet our growth objectives.

Our success depends substantially on the contributions and abilities of certain key executives and employees. We have experienced a significant amount of executive-level turnover in the past several years, which has had and could continue to have a negative impact on our ability to retain key employees. Rob Glaser, our founder, Chairman and initial chief executive officer, resigned as chief executive officer in 2010, was appointed as interim chief executive officer in July 2012, and was named permanent chief executive officer in July 2014. In addition, each member of our executive team was either hired or promoted to his or her executive position within the past three years. We cannot provide assurance that we will effectively manage these executive-level transitions, which may impact our ability to retain key executives and employees and which could harm our business and operations to the extent there is customer or employee uncertainty arising from such transitions.

Our success is also substantially dependent upon our ability to identify, attract and retain highly skilled management, technical and sales personnel. Qualified individuals are in high demand and competition for such qualified personnel in our industry, particularly engineering talent, is extremely intense, and we may incur significant costs to attract or retain them. Our ability to attract and retain personnel has been and may continue to be made more difficult by the

uncertainty created by our executive-level turnover and by our continued restructuring efforts, which have involved reductions in our workforce. There can be no assurance that we will be able to attract and retain the key personnel necessary to sustain our business or support future growth.

Acquisitions and divestitures involve costs and risks that could harm our business and impair our ability to realize potential benefits from these transactions.

12

---

As part of our business strategy, we have acquired and sold technologies and businesses in the past and expect that we will continue to do so in the future. For example, most recently, in August 2015 we completed the sale of our Slingo and social casino games business. The failure to adequately manage transaction costs and address the financial, legal and operational risks raised by acquisitions and divestitures of technology and businesses could harm our business and prevent us from realizing the benefits of these transactions. In addition, we may identify and acquire target companies, but those companies may not be complementary to our current operations and may not leverage our existing infrastructure or operational experience, which may increase the risks associated with completing acquisitions.

Transaction-related costs and financial risks related to completed and potential future purchase or sale transactions may harm our financial position, reported operating results, or stock price. Previous acquisitions have resulted in significant expenses, including amortization of purchased technology, amortization of acquired identifiable intangible assets and the incurrence of charges for the impairment of goodwill and other intangible assets, which are reflected in our operating expenses. New acquisitions and any potential additional future impairment of the value of purchased assets, including goodwill, could have a significant negative impact on our future operating results. For example, in 2013 we acquired Slingo, Inc. pursuant to which we recorded \$8.0 million of intangible assets and \$9.9 million in goodwill, and Muzicall Limited pursuant to which we recorded \$5.4 million of intangible assets and \$1.3 million in goodwill. In compliance with accounting principles generally accepted in the United States, we evaluate these assets for impairment at least annually. Factors that may be considered a change in circumstances, indicating that our goodwill, indefinite-lived intangible assets or definite-lived assets may not be recoverable, include reduced future revenue and cash flow estimates due to changes in our forecasts, and unfavorable changes to valuation multiples and discount rates due to changes in the market. If we were to conclude that any of these assets were impaired, we would have to recognize an impairment charge that could significantly impact our financial results.

Purchase and sale transactions also involve operational risks that could harm our existing operations or prevent realization of anticipated benefits from a transaction. These operational risks include:

- difficulties and expenses in assimilating the operations, products, technology, information systems, and/or personnel of the acquired company;
- retaining key management or employees of the acquired company;
- entrance into unfamiliar markets, industry segments, or types of businesses;
- operating, managing and integrating acquired businesses in remote locations or in countries in which we have little or no prior experience;
- diversion of management time and other resources from existing operations;
- impairment of relationships with employees, affiliates, advertisers or content providers of our business or acquired business; and
- assumption of known and unknown liabilities of the acquired company, including intellectual property claims.

We may be unable to adequately protect our proprietary rights or leverage our technology assets, and may face risks associated with third-party claims relating to intellectual property rights associated with our products and services. Our ability to compete across our businesses partly depends on the superiority, uniqueness and value of our technology, including both internally developed technology and technology licensed from third parties. To protect our proprietary rights, we rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with our employees and third parties, and protective contractual provisions. Our efforts to protect our intellectual property rights may not assure our ownership rights in our intellectual property, protect or enhance the competitive position of our products and services or effectively prevent misappropriation of our technology. We also routinely receive challenges to our trademarks and other proprietary intellectual property that we are using in our business activities in China. Disputes regarding the validity and scope of patents or the ownership of technologies and rights associated with streaming media, digital distribution, and online businesses are common and likely to arise in the future. While we sold to Intel Corporation in 2012 most of our patents, including patents that covered streaming media, we agreed to indemnify Intel for certain third-party infringement claims against these patents up to the purchase price we received in the sale. We may also be forced to litigate, to enforce, or defend our patents and other intellectual property rights or to determine the validity and scope of other parties' proprietary rights, enter into royalty or licensing agreements on unfavorable terms or redesign our product features and services. Any such dispute would

likely be costly and distract our management, and the outcome of any such dispute could fail to improve our business prospects or otherwise harm our business.

From time to time we receive claims and inquiries from third parties alleging that our technology may infringe the third parties' proprietary rights, especially patents. Third parties have also asserted and most likely will continue to assert claims against us alleging contract breaches, infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition or violations of privacy rights. These claims, even if not meritorious, could force us to



spend significant financial and managerial resources. Given the broad distribution of some of our consumer products, any individual claim related to those products could give rise to liabilities that may be material to us. For example, in July 2012, VoiceAge Corporation brought a lawsuit against us alleging breach of our obligation to pay them licensing fees under our patent license agreement with VoiceAge and seeking a material amount in damages. While we settled the dispute with VoiceAge in the fourth quarter of 2013, similar future lawsuits could result in significant legal expenses, monetary damages, penalties or injunctive relief against us that could have a material adverse impact on our financial results. In addition, in 2012 we sold substantially all of our patent assets to Intel. We believe that our patent portfolio may have in the past discouraged third parties from bringing infringement or other claims against us relating to the use of our technologies in our business. Accordingly, we cannot predict whether the sale of these patent assets to Intel will result in additional infringement or other claims against us from third parties.

Our business and operating results will suffer if our systems or networks fail, become unavailable, unsecured or perform poorly so that current or potential users do not have adequate access to our products, services and websites. Our ability to provide our products and services to our customers and operate our business depends on the continued operation and security of our information systems and networks. A significant or repeated reduction in the performance, reliability, security or availability of our information systems and network infrastructure could harm our ability to conduct our business, and harm our reputation and ability to attract and retain users, customers, advertisers and content providers. We have on occasion experienced system errors and failures that caused interruption in availability of products or content or an increase in response time. Problems with our systems and networks, or the third party systems and networks that we utilize, could result from our failure to adequately maintain and enhance these systems and networks, natural disasters and similar events, power failures, HVAC failures, intentional actions to disrupt our systems and networks and many other causes. The vulnerability of a large portion of our computer and communications infrastructure is enhanced due to its geographic concentration in Seattle, Washington, an area that is at heightened risk of earthquake, flood, and volcanic events. Many of our services do not currently have fully redundant systems or a formal disaster recovery plan, and we may not have adequate business interruption insurance to compensate us for losses that may occur from a system outage.

The growth of our business is dependent in part on successfully managing our international operations. Our international operations involve risks inherent in doing business globally, including difficulties in managing operations due to distance, language, and cultural differences, local economic conditions, different or conflicting laws and regulations, taxes, and exchange rate fluctuations. The functional currency of our foreign subsidiaries is the local currency of the country in which each subsidiary operates. We translate our subsidiaries' revenues into U.S. dollars in our financial statements, and continued volatility in foreign exchange rates, particularly if the U.S. dollar strengthens against the euro or the Korean won, may result in lower reported revenue or net assets in future periods. If we do not effectively manage any of the risks inherent in running our international businesses, our operating results and financial condition could be harmed.

We may be subject to market risk and legal liability in connection with our data collection and data security capabilities.

Many of our products are interactive Internet applications that by their very nature require communication between a client and server to operate. For example, to provide better consumer experiences and to operate effectively, our products send information, including personally identifiable information, to our servers or servers hosted by third parties. In addition, we sell many of our products and services through online sales transactions directly with consumers, through which we collect and store credit card information. In connection with our direct sales to consumers, we may be the victim of fraudulent transactions, including credit card fraud, which presents a risk to our revenue and potentially disrupts service to our consumers. While we take measures to protect our consumer data, we have experienced unauthorized access to our consumer data in the past, and it is possible that our security controls over consumer data may not prevent future improper access or disclosure of credit card information or personally identifiable information. We have an extensive privacy policy concerning the collection, use and disclosure of user data involved in interactions between our client and server products. A security breach that leads to disclosure of

consumer account information (including personally identifiable information) or any failure by us to comply with our posted privacy policy or existing or new legislation regarding privacy issues could harm our reputation, impact the market for our products and services, subject us to litigation, and require us to expend significant resources to mitigate the breach of security, comply with breach notification laws or address related matters. In addition, we need to maintain compliance with standards of the Payment Card Industry, or PCI, for data security in connection with our use of credit card services for payment. If we fail to maintain the PCI compliance standards we may be subject to substantial monetary penalties and we could lose the ability to accept credit card payments for transactions with our customers. Any of these consequences could materially harm our business or our financial results.

Changes in regulations applicable to the Internet and e-commerce that increase the taxes on the services we provide could materially harm our business and operating results.

As Internet commerce continues to evolve, increasing taxation by state, local or foreign tax authorities becomes more likely. For example, taxation of electronically delivered products and services or other charges imposed by government agencies may also be imposed. We believe we collect transactional taxes and are compliant and current in all jurisdictions where we believe we have a collection obligation for transaction taxes. Any regulation imposing greater taxes or other fees for products and services could result in a decline in the sale of products and services and the viability of those products and services, harming our business and operating results. A successful assertion by one or more states or foreign tax authorities that we should collect and remit sales or other taxes on the sale of our products or services could result in substantial liability for past sales.

In those countries where we have a tax obligation, we collect and remit value added tax, or VAT, on sales of “electronically supplied services” provided to European Union residents. The collection and remittance of VAT subjects us to additional currency fluctuation risks.

We may be subject to additional income tax assessments and changes in applicable tax regulations could adversely affect our financial results.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes, income taxes payable, and net deferred tax assets. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in our historical financial statements. An audit or litigation can result in significant additional income taxes payable in the U.S. or foreign jurisdictions which could have a material adverse effect on our financial condition and results of operations.

The U.S. is considering corporate tax reform that may significantly change the corporate tax rate and U.S. international tax rules. Additionally, longstanding international tax norms that determine each country’s jurisdiction to tax cross-border international trade are evolving. Given the unpredictability of these possible changes and their potential interdependency, it is very difficult to assess whether the overall effect of such potential tax changes would be cumulatively positive or negative for our earnings and cash flow, but such changes could adversely impact our financial results.

Our Chairman of the Board and Chief Executive Officer beneficially owns approximately 36% of our stock, which gives him significant control over certain major decisions on which our shareholders may vote or may discourage an acquisition of us.

Robert Glaser, our Chairman of the Board and Chief Executive Officer, beneficially owns approximately 36% of our common stock. As a result, Mr. Glaser and his affiliates will have significant influence to:

- elect or defeat the election of our directors;
- amend or prevent amendment of our articles of incorporation or bylaws;
- effect or prevent a merger, sale of assets or other corporate transaction; and
- control the outcome of any other matter submitted to the shareholders for vote.

The stock ownership of Mr. Glaser and his affiliates may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of RealNetworks, which in turn could reduce our stock price or prevent our shareholders from realizing a premium over our stock price.

Provisions of our charter documents, shareholder rights plan, and Washington law could discourage our acquisition by a third party.

Our articles of incorporation provide for a strategic transactions committee of the board of directors. Without the prior approval of this committee, and subject to certain limited exceptions, the board of directors does not have the authority to:

- adopt a plan of merger;

-

authorize the sale, lease, exchange or mortgage of assets representing more than 50% of the book value of our assets prior to the transaction or on which our long-term business strategy is substantially dependent;  
authorize our voluntary dissolution; or  
take any action that has the effect of any of the above.

Mr. Glaser has special rights under our articles of incorporation to appoint or remove members of the strategic transactions committee at his discretion that could make it more difficult for RealNetworks to be sold or to complete another change of control transaction without Mr. Glaser’s consent. RealNetworks has also entered into an agreement providing Mr. Glaser with certain contractual rights relating to the enforcement of our charter documents and Mr. Glaser’s roles and authority within RealNetworks. These rights and his role as Chairman of the Board of Directors, together with Mr. Glaser’s significant beneficial ownership, create unique potential for concentrated influence of Mr. Glaser over potentially material transactions involving RealNetworks and decisions regarding the future strategy and leadership of RealNetworks.

We have adopted a shareholder rights plan, which was amended and restated in December 2008, which provides that shares of our common stock have associated preferred stock purchase rights. The exercise of these rights would make the acquisition of RealNetworks by a third party more expensive to that party and has the effect of discouraging third parties from acquiring RealNetworks without the approval of our board of directors, which has the power to redeem these rights and prevent their exercise.

Washington law imposes restrictions on some transactions between a corporation and certain significant shareholders. The foregoing provisions of our charter documents, shareholder rights plan, our agreement with Mr. Glaser, and Washington law, as well as our charter provisions that provide for a classified board of directors and the availability of “blank check” preferred stock, could have the effect of making it more difficult or more expensive for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. These provisions may therefore have the effect of limiting the price that investors might be willing to pay in the future for our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate and administrative headquarters and certain research and development and sales and marketing personnel are located at our facility in Seattle, Washington.

We lease properties primarily in the following locations that are utilized by all of our business segments, unless otherwise noted below, to house our research and development, sales and marketing, and general and administrative personnel:

Location	Area leased (sq. feet)	Lease expiration
Seattle, Washington	86,000	August 2024, with an option to renew for two five-year periods
Beijing, Republic of China (1)	15,000	May 2018

(1) This facility is utilized only by our RealPlayer segment.

In addition, we lease smaller facilities in the U.S. and foreign countries, some of which support the operations of all of our business segments while others are dedicated to a specific business segment. We believe that our properties are in good condition, adequate and suitable for the conduct of our business. For additional information regarding our obligations under leases, see Note 16. Commitments and Contingencies, in this 10-K.

Item 3. Legal Proceedings

See Note 16. Commitments and Contingencies, in this 10-K.

Item 4. Mine Safety Disclosures

Not applicable.



## PART II.

## Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on The NASDAQ Stock Market under the symbol RNWK.

The high and low intraday sales prices for our common stock were as follows:

	Years Ended December 31,			
	2015		2014	
	High	Low	High	Low
First Quarter	\$7.24	\$6.50	\$8.00	\$6.83
Second Quarter	7.15	5.40	8.09	7.03
Third Quarter	5.86	3.75	8.38	6.91
Fourth Quarter	4.50	3.75	7.45	6.00

As of January 29, 2016, there were approximately 175 holders of record of our common stock. Most shares of our common stock are held by brokers and other institutions on behalf of shareholders.

The declaration and payment of any future dividends, as well as the amount thereof, are subject to the discretion of our board of directors and will depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by our board of directors. Accordingly, there can be no assurance that we will declare and pay any dividends in the future.

Comparison of 5 year cumulative total return to shareholders on RealNetworks, Inc., common stock with the cumulative total return on the NASDAQ Composite Index and the Dow Jones U.S. Technology Index for the period beginning on December 31, 2010 and ended on December 31, 2015.

The total return on our common stock and each index assumes the value of each investment was \$100 on December 31, 2010, and that all dividends were reinvested. Return information is historical and not necessarily indicative of future performance.

## Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this report.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
Net revenue	\$ 125,296	\$ 156,212	\$ 206,196	\$ 258,842	\$ 335,686
Cost of revenue	70,297	76,381	79,091	103,731	126,637
Extinguishment of liability	—	(10,580 )	—	—	—
Impairment of deferred costs	—	—	—	—	19,962
Gross profit	54,999	90,411	127,105	155,111	189,087
Sale of patents and other technology assets, net of costs	—	—	—	116,353	—
<b>Operating expenses:</b>					
Research and development	43,626	52,765	60,880	63,194	70,212
Sales and marketing	48,231	66,926	80,011	90,301	111,300
General and administrative	24,549	34,001	36,643	43,891	37,181
Restructuring and other charges	5,279	4,992	5,765	15,225	8,650
Lease exit and related charges (gains)	2,501	880	3,089	3,290	(646 )
Loss on litigation settlements	—	—	11,525	—	—
Total operating expenses	124,186	159,564	197,913	215,901	226,697
Operating income (loss)	(69,187 )	(69,153 )	(70,808 )	55,563	(37,610 )
Other income (expense), net (A)	(13,494 )	(1,382 )	16,721	1,796	(6,819 )
Income (loss) before income taxes	(82,681 )	(70,535 )	(54,087 )	57,359	(44,429 )
Income tax expense (benefit)	(834 )	1,280	4,903	12,518	(17,329 )
Net income (loss) attributable to common shareholders	\$(81,847 )	\$(71,815 )	\$(58,990 )	\$44,841	\$(27,100 )
Diluted net income (loss) per share attributable to common shareholders	\$(2.26 )	\$(2.00 )	\$(1.66 )	\$1.28	\$(0.79 )
Shares used to compute diluted net income (loss) per share	36,165	35,947	35,553	35,122	34,185
Special cash dividend of \$1.00 per common share	—	—	—	—	\$136,793

(A) Includes a \$21.4 million pretax gain from the sale of equity securities in 2013. See Note 5. Fair Value Measurements, in this 10-K for more details.

	As of December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
<b>Consolidated Balance Sheets Data:</b>					
Cash, cash equivalents, and short-term investments	\$99,129	\$161,706	\$226,155	\$271,414	\$185,072
Working capital	91,373	136,429	191,522	237,646	160,787
Total assets	161,343	250,299	342,781	433,897	393,397
Shareholders’ equity	120,683	197,198	268,981	342,728	286,894

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations





## Overview

We manage our business and report revenue and operating income (loss) in three segments: (1) RealPlayer Group, (2) Mobile Entertainment, and (3) Games. Within our RealPlayer Group, we have intensified our focus on leveraging current and prospective partners, especially wireless carriers, to increase distribution of RealTimes, our photo and video sharing technology which we launched in the second quarter of 2015. We continue to develop innovative ways to enable our partners to integrate RealTimes capabilities into their products and services. Although our new RealTimes and RealPlayer Cloud products have begun to generate some revenue, this group's revenue is derived mainly from the sale and license of our RealPlayer software and related products. Our Mobile Entertainment business generates revenue primarily from the sale of its SaaS services, which include ringback tones, music on demand, and intercarrier messaging. Our Games business, through its GameHouse and Zylom brands, derives revenue from sales of games licenses, online games subscription services, advertising on games sites and social networks, and sales of mobile games.

We sold the Slingo and social casino portion of our games business to Gaming Realms plc, a London-based online gaming company, for \$18.0 million in August 2015. The purpose of the sale was to derive value from this business and to allow greater focus on our traditional casual games business. This transaction is further described in Note 3. Acquisitions and Disposals, to the consolidated financial statements included in Item 8 of Part II of this Form 10-K. We allocate certain corporate expenses which are directly attributable to supporting our businesses, including but not limited to a portion of finance, legal, human resources and headquarters facilities, to our reportable segments. The allocation of these costs to our business units ensures accountability for financial and operational performance within each of our reportable segments. Our most significant expenses relate to cost of revenue, compensating employees, and selling and marketing our products and services.

In 2015 our consolidated revenue declined by \$30.9 million compared with 2014, due to a decrease of \$14.5 million decrease in Mobile Entertainment revenue, a decrease of \$10.1 million in RealPlayer Group revenue, and a \$6.4 million decrease in Games revenue, of which \$1.9 million is related to the Slingo and social casino business that was sold in August of 2015.

Revenue from our legacy products continues to decline as a result of certain ongoing changes in our businesses and market-driven factors. Our SaaS business within Mobile Entertainment continues to be negatively impacted by the proliferation of smartphone applications and services, some of which do not depend on our carrier customers for distribution to consumers. In addition, we continue to experience pricing pressure from carriers for our intercarrier messaging services and we ceased investing in our Helix product in the fourth quarter of 2014. Our Games business revenue declined in 2015 due to lower subscriptions, but has stabilized in recent quarters. In our RealPlayer Group segment, revenue has been negatively impacted as a result of our 2014 transition to a new third party distribution partner at significantly lower rates compared to our previous partner.

As of December 31, 2015, we had \$99.1 million in unrestricted cash, cash equivalents and short-term investments, compared to \$161.7 million as of December 31, 2014. The 2015 decrease of cash, cash equivalents, and short-term investments from December 31, 2014 was due primarily to our ongoing negative cash flows used in operating activities that included significant cash expenditures related to new product launches, which totaled \$69.0 million for 2015.

Over the past several quarters, we have developed a plan to embrace cloud and mobile solutions as customer preferences have changed. We have implemented strategic initiatives, and executed certain restructuring efforts, all in an effort to grow our businesses, reduce costs, and move towards profitability. In line with our growth plan, we have continued to invest in our business units, with a focus on our RealPlayer business. For example, during the first half of 2014, we released RealPlayer Cloud worldwide and in May of 2015, we launched RealTimes, our newest, feature-rich photo and video service. In the third quarter of 2015, we began to intensify our focus on current and prospective partners, especially wireless carriers, to increase distribution of RealTimes. In the fourth quarter of 2015 we entered into two new carrier agreements for our RealTimes product. We continue to develop innovative ways to enable our partners to integrate RealTimes capabilities into their products and services and in the first quarter of 2016 we announced two new partnerships to distribute RealTimes. Our investment in RealTimes thus far has negatively impacted our operating results, and we expect to invest further. We've also spent the last several quarters developing and testing the next generation of our audio/video codec, Real Media High Definition, or RMHD. In our games

business, the latest title in our Delicious-branded series of casual games released in the second quarter of 2015 has continued to perform well as our Games Group remains focused on growing and leveraging the Delicious franchise.

In addition to our revenue growth plans, we have continued to reduce costs and better align our operating expenses with our revenue profile through various restructuring actions, as described below in Consolidated Operating Expenses. These actions drove the \$35.4 million decline in our operating expenses during 2015 compared to 2014.

## Summary of Results

Consolidated results of operations were as follows (dollars in thousands):

	2015	2014	2013	2015-2014 Change	% Change	2014-2013 Change	% Change
Total revenue	\$125,296	\$156,212	\$206,196	\$(30,916 )	(20 )%	\$(49,984 )	(24 )%
Cost of revenue	70,297	76,381	79,091	(6,084 )	(8 )%	(2,710 )	(3 )%
Extinguishment of liability	—	(10,580 )	—	10,580	(100 )%	(10,580 )	100 %
Gross profit	54,999	90,411	127,105	(35,412 )	(39 )%	(36,694 )	(29 )%
Gross margin	44	% 58	% 62	% (14 )%		(4 )%	
Total operating expenses	124,186	159,564	197,913	(35,378 )	(22 )%	(38,349 )	(19 )%
Operating income (loss)	\$(69,187 )	\$(69,153 )	\$(70,808 )	\$(34 )	— %	\$1,655	2 %

## 2015 compared with 2014

Revenue decreased by \$30.9 million, or 20%. The reduction in revenue resulted from a decline of \$14.5 million in our Mobile Entertainment segment, a decline of \$10.1 million in our RealPlayer Group segment, and a decline of \$6.4 million in our Games segment. As discussed above, revenue for our legacy products in all three of our segments continue to decline; subscriptions for our Games business have decreased when compared to 2014, but are now stabilizing, and our RealPlayer segment has been negatively impacted by the change in our third party distribution arrangements. Gross margin decreased to 44% from 58%, primarily due to the transition to a new third party distribution arrangement in Q2 2014 at significantly lower rates compared to our previous partner and to an increase in our bandwidth expense due to our continued investment in our RealTimes product. Additionally, a higher proportion of lower margin revenue in our music on demand business in Korea and the extinguishment of certain accrued royalty liabilities of \$10.6 million in Q1 2014 both contributed to the decline in gross margin in 2015 when compared with 2014.

Operating expenses decreased by \$35.4 million primarily due to reductions in personnel and related costs of \$24.4 million, reductions in marketing costs of \$7.4 million, and lower facilities and infrastructure related expenses of \$2.0 million.

## 2014 compared with 2013

Revenue decreased by \$50.0 million, or 24%. The reduction in revenue resulted from a decline of \$36.0 million in our RealPlayer Group segment, a decline of \$12.7 million in our Games segment, and a decline of \$1.3 million in our Mobile Entertainment segment. Gross margin decreased to 58% from 62%, primarily as a result of our transition to a new third party distribution arrangement at significantly lower rates compared to our previous partner in our RealPlayer business, and to declining sales in our storefront business in Games. These decreases in gross margin were partially offset by the extinguishment in Q1 2014 of certain accrued royalty liabilities of \$10.6 million associated with our historical music business, which had been originally recorded based on statutory rates.

Operating expenses decreased by \$38.3 million primarily due to reductions in personnel and related costs of \$10.9 million, reductions in marketing costs of \$10.4 million and lower costs related to our 2013 headquarters relocation of \$5.7 million, which resulted from our ongoing expense re-alignment efforts, as well as litigation settlement costs of \$11.5 million in the prior year.

## Segment Operating Results

## RealPlayer Group

RealPlayer Group segment results of operations were as follows (dollars in thousands):

	2015	2014	2013	2015-2014 Change	% Change	2014-2013 Change	% Change
Total revenue	\$29,141	\$39,201	\$75,206	\$(10,060 )	(26 )%	\$(36,005 )	(48 )%
Cost of revenue	16,171	14,508	16,220	1,663	11 %	(1,712 )	(11 )%

Edgar Filing: REALNETWORKS INC - Form 10-K

Gross profit	12,970	24,693	58,986	(11,723 )	(47 )%	(34,293 )	(58 )%
Gross margin	45	% 63	% 78	% (18 )%		(15 )%	
Total operating expenses	47,149	55,742	60,484	(8,593 )	(15 )%	(4,742 )	(8 )%
Operating income (loss)	\$(34,179 )	\$(31,049 )	\$(1,498 )	\$(3,130 )	(10 )%	\$(29,551 )	NM

20

---

## 2015 compared with 2014

Total RealPlayer Group revenue in 2015 decreased by \$10.1 million, or 26%. This decrease was primarily due to our 2014 transition to a new third party distribution arrangement at significantly lower rates compared to our previous partner. This transition caused our third party distribution revenue to decrease by \$8.8 million when compared to 2014. Our SuperPass subscription revenue declined by \$2.6 million due to fewer subscribers for this legacy product line and RealPlayer license revenue decreased by \$1.6 million. These declines in revenue were offset in part by a \$2.1 million increase in our IP licensing business.

Gross margin decreased by 18 percentage points, due primarily to our transition to a new third party distribution arrangement at significantly lower rates compared to our previous partner and an increase in bandwidth expenses associated with our cloud-based products. We have put mitigation plans in place to reduce bandwidth costs. Operating expenses decreased by \$8.6 million primarily due to decreased personnel and related expenses of \$4.4 million and a reduction in marketing expenses of \$4.2 million, mainly related to our third party distribution arrangements.

## 2014 compared with 2013

Total RealPlayer Group revenue decreased by \$36.0 million, or 48%. This decrease was primarily a result of our transition to a new third party distribution arrangement at significantly lower rates compared to our previous partner that caused our third party distribution revenue to decrease by \$16 million, and lower subscription revenue of \$5.5 million due to fewer SuperPass subscribers. Further contributing to the decline was a decrease in RealPlayer license revenue of \$7.6 million due to our focus away from our RealPlayer product and towards increasing RealPlayer Cloud subscriptions, and a decrease of \$5.9 million in distribution of intellectual property licenses.

Gross margin decreased by 15 percentage points, due primarily to our transition to a new third party distribution arrangement at significantly lower rates compared to our previous partner. Operating expenses decreased by \$4.7 million primarily due to decreased marketing spend of \$5.5 million mainly related to our third party distribution arrangements.

## Mobile Entertainment

Mobile Entertainment segment results of operations were as follows (dollars in thousands):

	2015	2014	2013	2015-2014 Change	% Change	2014-2013 Change	% Change
Total revenue	\$65,407	\$79,901	\$81,181	\$(14,494 )	(18 )%	\$(1,280 )	(2 )%
Cost of revenue	44,212	50,399	47,608	(6,187 )	(12 )%	2,791	6 %
Gross profit	21,195	29,502	33,573	(8,307 )	(28 )%	(4,071 )	(12 )%
Gross margin	32	% 37	% 41	% (5 )%		(4 )%	
Total operating expenses	20,256	33,325	35,839	(13,069 )	(39 )%	(2,514 )	(7 )%
Operating income (loss)	\$939	\$(3,823 )	\$(2,266 )	\$4,762	125 %	\$(1,557 )	(69 )%

## 2015 compared with 2014

Mobile Entertainment revenue decreased by \$14.5 million, or 18%. This decrease was primarily due to a decrease of \$7.6 million in our Ringback Tone revenue and a decrease in Licensing revenue of \$3.8 million due to the cessation of our Helix business in Q4 2014. Revenue for our messaging business decreased by \$1.4 million.

Gross margin declined by 5 percentage points in 2015, due primarily to a higher proportion of lower margin revenue, such as music on demand, compared to the prior year. Operating expenses decreased by \$13.1 million, due primarily to a reduction in personnel and related expenses of \$8.7 million. Additionally, infrastructure and marketing expenses declined by \$1.9 million and \$1.7 million, respectively.

## 2014 compared with 2013

Mobile Entertainment revenue decreased by \$1.3 million, or 2%. This decrease was primarily due to a decrease of \$3.4 million due to termination of carrier contracts and a decrease of \$1.2 million in our Helix business. These decreases, along with certain other declines in our SaaS business, were partially offset by an increase of \$4.9 million

in music on demand revenue, primarily in Korea.

21

---

Gross margin declined by 4 percentage points, due primarily to a higher proportion of lower margin revenue, such as music on demand, compared to the prior year.

#### Games

Games segment results of operations were as follows (dollars in thousands):

	2015	2014	2013	2015-2014	%	2014-2013	%
				Change	Change	Change	Change
Total revenue	\$30,748	\$37,110	\$49,809	\$(6,362)	(17)%	\$(12,699)	(25)%
Cost of revenue	9,291	11,074	13,359	(1,783)	(16)%	(2,285)	(17)%
Gross profit	21,457	26,036	36,450	(4,579)	(18)%	(10,414)	(29)%
Gross margin	70	% 70	% 73	% —	%	(3)	)%
Total operating expenses	29,086	37,170	47,177	(8,084)	(22)%	(10,007)	(21)%
Operating income (loss)	\$(7,629)	\$(11,134)	\$(10,727)	\$3,505	31%	\$(407)	(4)%

2015 compared with 2014

Games revenue decreased by \$6.4 million, or 17%. \$1.9 million of the total decline in revenue is related to the sale of our Slingo and social casino business in August of 2015. The remaining decline of \$4.5 million was primarily due to a decrease in subscription revenue. The revenues for PC download games and advertising also declined compared to the prior year but were almost entirely offset by an increase in mobile casual games revenue.

Cost of revenue decreased by \$1.8 million, or 16%. \$0.9 million of the total decline in cost of revenue is attributed to the sale of our Slingo and social casino games business. The remaining \$0.9 million decrease was due to the decline in advertising expense and in partner royalties expense for our PC download and subscription games sales channels.

Operating expenses decreased by \$8.1 million, or 22%. These reductions in operating expenses were driven by the sale of our Slingo and social casino business in August of 2015.

2014 compared with 2013

Games revenue decreased by \$12.7 million, or 25%. Lower revenue from subscription products, advertising and license sales contributed \$5.8 million, \$3.7 million, and \$2.2 million, respectively, to the decline during the period.

Cost of revenue decreased by \$2.3 million, or 17%. The decrease was primarily due to the decrease in partner royalties expense, which has a direct correlation with the decrease in Games revenue, in addition to reduced personnel costs. Gross margin decreased due primarily to a higher proportion of lower margin revenue in 2014.

Operating expenses decreased by \$10.0 million, or 21%. The decrease was primarily due to reductions in personnel and related costs of \$4.9 million, and reductions in marketing expense of \$4.3 million.

#### Corporate

We allocate certain corporate expenses which are directly attributable to supporting the business to our reportable segments. These allocated corporate expenses include, but are not limited to a portion of finance, legal, human resources and headquarters facilities. Remaining expenses, which are not directly attributable to supporting the business, are reported as corporate items. All restructuring, extinguishment of liability, and lease exit and related charges, are included in the corporate segment.

Corporate segment results of operations were as follows (dollars in thousands):

	2015	2014	2013	2015-2014	%	2014-2013	%
				Change	Change	Change	Change
Cost of revenue	\$623	\$400	\$1,904	\$223	56%	\$(1,504)	(79)%
Extinguishment of liability	—	(10,580)	—	10,580	(100)%	\$(10,580)	100%
Total operating expenses	27,695	33,327	54,413	(5,632)	(17)%	(21,086)	(39)%
Operating income (loss)	\$(28,318)	\$(23,147)	\$(56,317)	\$(5,171)	(22)%	\$33,170	59%

2015 compared with 2014





Operating expenses decreased by \$5.6 million, or 17%. The decrease was due to a reduction in personnel and related costs of \$6.0 million.

2014 compared with 2013

During the quarter ended March 31, 2014 certain accrued royalty liabilities of \$10.6 million associated with our historical music business, which had originally been recorded based on statutory rates, were extinguished.

Cost of revenue decreased by \$1.5 million. The decrease was due primarily to lower costs resulting from the 2013 Seattle headquarters relocation.

Operating expenses decreased by \$21.1 million, or 39%. The decrease was primarily due to savings from the 2013 relocation of our Seattle headquarters totaling \$5.7 million, reduced restructuring and lease exit charges of \$3.0 million and the litigation settlements of \$11.5 million that occurred in 2013.

#### Consolidated Operating Expenses

Our operating expenses consist primarily of salaries and related personnel costs including stock based compensation, consulting fees associated with product development, sales commissions, amortization of certain intangible assets capitalized in our acquisitions, professional service fees, advertising costs, and restructuring charges. Operating expenses were as follows (dollars in thousands):

	2015	2014	2013	2015-2014 Change	% Change	2014-2013 Change	% Change
Research and development	\$43,626	\$52,765	\$60,880	\$(9,139)	(17)%	\$(8,115)	(13)%
Sales and marketing	48,231	66,926	80,011	(18,695)	(28)%	(13,085)	(16)%
General and administrative	24,549	34,001	36,643	(9,452)	(28)%	(2,642)	(7)%
Restructuring and other charges	5,279	4,992	5,765	287	6%	(773)	(13)%
Lease exit and related charges	2,501	880	3,089	1,621	184%	(2,209)	(72)%
Loss on litigation settlements	—	—	11,525	—	—%	(11,525)	100%
Total consolidated operating expenses	\$124,186	\$159,564	\$197,913	\$(35,378)	(22)%	\$(38,349)	(19)%

Research and development expenses decreased by \$9.1 million, or 17%, in the year ended 2015, primarily due to reduced personnel and related costs savings of \$8.4 million, of which \$3.4 million was related to our Slingo and social casino business, compared to 2014.

Research and development expenses decreased by \$8.1 million, or 13%, in the year ended 2014, compared with 2013. While we continue to invest in new products, we saw an overall decrease in personnel and related costs of \$5.4 million, resulting from our ongoing expense re-alignment efforts in addition to \$3.8 million savings from the relocation of our Seattle headquarters.

Sales and marketing expenses decreased by \$18.7 million, or 28%, in the year ended 2015, compared with 2014. The decrease was due primarily due to reductions in personnel and related expenses of \$9.7 million and decreased marketing expenses of \$7.3 million, mainly related to the change in our third party distribution arrangements. The Slingo and social casino business contributed \$1.6 million of reduced personnel and related expenses, and \$1.4 million of reduced marketing expenses.

Sales and marketing expenses decreased by \$13.1 million, or 16%, in the year ended 2014, compared with 2013. The decrease was due primarily to reductions in marketing expenses of \$10.5 million, related to our third party distribution arrangements.

General and administrative expenses decreased by \$9.5 million, or 28%, in the year ended 2015, compared with 2014. The decrease was primarily related to a reduction in personnel and related expenses of \$6.3 million and an expense benefit of \$2.4 million in 2015 for the release of certain previously accrued sales taxes.

General and administrative expenses decreased by \$2.6 million, or 7%, in the year ended 2014, compared with 2013. Contributing to the decrease for the period was a decrease in personnel and related costs of \$1.8 million resulting from

our ongoing expense re-alignment efforts.

23

---

Restructuring and other charges and Lease exit and related charges consist of costs associated with the ongoing reorganization of our business operations and our ongoing expense re-alignment efforts. The restructuring expense amounts in all years primarily related to severance costs due to workforce reductions. For additional details on these charges see Note 10. Restructuring Charges and Note 11. Lease Exit and Related Charges.

Loss on litigation settlements recorded during 2013 relates to settlement agreements executed in October 2013, for which we paid in full an aggregate amount of \$11.5 million during the fourth quarter of 2013, as discussed in Note 16. Commitments and Contingencies.

#### Other Income (Expenses)

Other income (expenses), net was as follows (dollars in thousands):

	2015	Change	2014	Change	2013
Interest income, net	\$680	22	% \$556	(51 )%	\$1,133
Gain (loss) on investments, net	(159 )	(107 )%	2,371	(89 )%	21,389
Equity in net loss of Rhapsody	(14,521 )	(226 )%	(4,452 )	29	% (6,268 )
Other income (expense), net	506	254	% 143	(69 )%	467
Total other income (expense), net	\$(13,494 )	876	% \$(1,382 )	(108 )%	\$16,721

As described further in Note 4. Rhapsody Joint Venture, we account for our investment in Rhapsody under the equity method of accounting. The net carrying value of our investment in Rhapsody is not necessarily indicative of the underlying fair value of our investment.

The 2014 gain on sale of equity investments, net, was due to a \$2.4 million gain on the sale of a portion of our shares held in J-Stream. The 2013 gain on sale of equity investments, net, was due to a \$21.4 million gain on the sale of all of our remaining shares of common stock in LoEn Entertainment, Inc. For additional details on the J-Stream and LoEn transactions see Note 5. Fair Value Measurements.

#### Income Taxes

During the years ended December 31, 2015, 2014, and 2013, we recognized income tax benefit of \$0.8 million, and income tax expense of \$1.3 million and \$4.9 million, respectively, related to U.S. and foreign income taxes.

The tax benefit for the year ended December 31, 2015 was largely the result of an income tax benefit related to the sale of the Slingo and social casino games business in the quarter ended September 30, 2015 offset by foreign withholding taxes and income taxes in foreign jurisdictions. The tax expense for the year ended December 31, 2014 was largely the result of foreign withholding taxes and income taxes in foreign jurisdictions. The tax expense for the year ended December 31, 2013 was largely the result of valuation allowances we recorded in certain foreign jurisdictions.

We assess the likelihood that our deferred tax assets will be recovered based upon our consideration of many factors, including the current economic climate, our expectations of future taxable income, our ability to project such income, and the appreciation of our investments and other assets. We maintain a partial valuation allowance of \$173.9 million for our deferred tax assets due to uncertainty regarding their realization as of December 31, 2015. The net increase in the valuation allowance since December 31, 2014 of \$24.4 million was the result of an increase in current year deferred tax assets for which the Company maintains a valuation allowance.

We generate income in a number of foreign jurisdictions, some of which have higher tax rates and some of which have lower tax rates relative to the U.S. federal statutory rate. Changes to the blend of income between jurisdictions with higher or lower effective tax rates than the U.S. federal statutory rate could affect our effective tax rate. For the year ended December 31, 2015, decreases in tax expense from income generated in foreign jurisdictions with lower tax rates in comparison to the U.S. federal statutory rate were offset by increases in tax expense from income generated in foreign jurisdictions having comparable, or higher tax rates in comparison to the U.S. federal statutory rate.

As of December 31, 2015 and 2014, we had \$0.3 million and \$3.5 million of unrecognized tax benefits, respectively. The decrease in unrecognized tax benefits is the result of the defense of our positions, and ultimate settlement and closure of a United States federal tax examination. As of December 31, 2015, there are no unrecognized tax benefits remaining that would affect our effective tax rate if recognized, as the offset would increase

the valuation allowance. We do not anticipate that the total amount of unrecognized tax benefits will significantly change within the next twelve months.

We file numerous consolidated and separate income tax returns in the U.S. including federal, state and local, as well as foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal income tax examinations for tax years before 2013 or state, local, or foreign income tax examinations for years before 1993. We are currently under audit by various states and foreign jurisdictions for certain tax years subsequent to 1993.

#### Geographic Revenue

Revenue by geographic region was as follows (dollars in thousands):

	2015	2014	2013	2015-2014 Change	% Change	2014-2013 Change	% Change
United States	\$46,893	\$61,660	\$90,250	\$(14,767)	(24)%	\$(28,590)	(32)%
Europe	15,166	26,575	38,155	(11,409)	(43)%	(11,580)	(30)%
Korea	37,832	39,852	46,601	(2,020)	(5)%	(6,749)	(14)%
Rest of World	25,405	28,125	31,190	(2,720)	(10)%	(3,065)	(10)%
Total Revenue	\$125,296	\$156,212	\$206,196	\$(30,916)	(20)%	\$(49,984)	(24)%

Revenue in the U.S. decreased by \$14.8 million, or 24%, in the year-ended 2015, compared with 2014. The decline was mainly due to a reduction in revenue from the change in our third party software agreements of \$7.3 million and from our Ringback Tones business of \$4.6 million. The sale of our Slingo and social casino business contributed \$1.9 million to the decline.

Revenue in the U.S. declined by \$28.6 million, or 32%, in the year-ended 2014, compared with 2013. The decline was mainly due to a reduction in revenue from the distribution of our third party software products of \$14.9 million, and declines from our SuperPass subscriptions offering and our RealPlayer Plus product.

Revenue in Europe decreased by \$11.4 million, or 43%, in the year-ended 2015, compared with 2014. The decrease was primarily due to lower revenue from our Games business of \$5.0 million and a decline in our SaaS revenue of \$4.1 million.

Revenue in Europe decreased by \$11.6 million, or 30%, in the year-ended 2014, compared with 2013. The decrease was primarily due to lower revenue from our Games segment of \$7.7 million. Lower revenue generated from sales of RealPlayer Plus and a decrease in revenue from the distribution of our third party software products also contributed to the decline.

Revenue in Korea decreased by \$2.0 million, or 5%, in the year-ended 2015, compared with 2014. The decrease was due to a decline in revenue from intellectual property licensing of \$1.5 million.

Revenue in Korea decreased by \$6.7 million, or 14%, in the year-ended 2014, compared with 2013. The decrease was primarily due to decreased revenue from intellectual property licensing of \$8.3 million.

Revenue in the rest of world decreased by \$2.7 million, or 10%, in the year-ended 2015, compared with 2014. The decrease was due to various declines and the shutdown of our Helix business, offset by an increase in our IP revenue in China of \$2.8 million.

Revenue in the rest of world decreased by \$3.1 million, or 10%, in the year-ended 2014, compared with 2013. The decrease was primarily due to lower overall revenue from sales of RealPlayer Plus of \$2.3 million. Declines in our SaaS business and the distribution of third party software products in our RealPlayer segment also contributed to the decline.

#### Liquidity and Capital Resources

The following summarizes working capital, cash, cash equivalents, short-term investments, and restricted cash and investments (in thousands):

	December 31,	
	2015	2014
Working capital	\$91,373	\$136,429
Cash, cash equivalents, and short-term investments	99,129	161,706
Restricted cash and investments	2,890	3,000

The decrease in 2015 working capital from December 31, 2014, which includes cash, cash equivalents, and short term investments, was primarily due to cash used in our operations of \$69.0 million, offset in part by cash received of \$10.0 million from the sale of our Slingo and social casino games business and \$6.6 million from the sale of short-term

investments, net.

The following summarizes cash flow activity (in thousands):

25

---

	Years Ended December 31,		
	2015	2014	2013
Cash provided by (used in) operating activities	\$(68,982 )	\$(60,244 )	\$(49,879 )
Cash provided by (used in) investing activities	15,728	15,561	39,242
Cash provided by (used in) financing activities	341	(637 )	(1,435 )

Cash used in operating activities consisted of net income (loss) adjusted for certain non-cash items such as depreciation and amortization, as well as the effect of changes in certain operating assets and liabilities.

Cash used in operating activities was \$8.7 million more in 2015 than in 2014. This increase in cash used in operating activities was due mainly to the change in operating assets and liabilities during 2015. In the current year, we used cash of \$16.5 million from the net change in operating assets and liabilities while in 2014 the net change in operating assets and liabilities provided \$2.5 million. This increased usage was offset in part by the improvement in our operating loss in 2015 compared to 2014, when excluding the non-cash benefit for the extinguishment of liability in 2014.

Cash used in operating activities was \$10.4 million more in 2014 than in 2013. This increase in cash used was primarily due to the decline in revenue of \$50.0 million which was offset, in part, by the decrease in operating expenses of \$38.3 million.

For the year ended December 31, 2015, cash provided by investing activities of \$15.7 million was due to sales and maturities, net of purchases, of short-term investments totaling \$6.6 million and the cash proceeds from the sale of our Slingo and social casino games business of \$10.0 million.

For the year ended December 31, 2014, cash provided by investing activities of \$15.6 million was mainly from sales and maturities, net of purchases, of short-term investments totaling \$16.5 million. In addition, cash proceeds from the sale of available for sale securities of \$2.8 million in 2014 mainly offset purchases of equipment, software and leasehold improvements of \$2.5 million.

For the year ended December 31, 2013, cash provided by investing activities of \$39.2 million was due to the net cash proceeds of \$29.2 million received from the sale of our remaining shares of common stock in LoEn. Further contributing to the total cash provided was sales and maturities, net of purchases, of short-term investments of \$33.3 million. Offsetting these cash proceeds was cash used for the acquisition of businesses, net of cash acquired, of \$22.5 million.

Financing activities for the year ended December 31, 2015 provided cash totaling \$0.3 million which was mainly from proceeds received from the issuance of common stock of \$0.4 million offset by \$0.1 million for tax payments from shares withheld upon vesting of restricted stock.

Financing activities for the year ended December 31, 2014 used cash totaling \$0.6 million which was mainly due to tax payments from shares withheld upon vesting of restricted stock and the payment of contingent consideration related to acquisitions of businesses, partially offset by proceeds received from the issuance of common stock.

Financing activities for the year ended December 31, 2013 used cash primarily from tax payments from shares withheld upon the vesting of employee restricted stock, in addition to payment of contingent consideration relating to a previous acquisition. This was partially offset by the proceeds from the exercise of employee stock options and proceeds from sales of common stock under the employee stock purchase plan.

While we currently have no planned significant capital expenditures for 2016 other than those in the ordinary course of business, we have contractual commitments for future payments related to office leases.

We believe that our current cash, cash equivalents, and short-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

In the future, we may seek to raise additional funds through public or private equity financing, or through other sources such as future credit facilities. Such sources of funding may or may not be available to us at commercially reasonable terms. The sale of additional equity securities could result in dilution to our shareholders. In addition, in the future, we may enter into cash or stock acquisition transactions or other strategic transactions that could reduce cash available to fund our operations or result in dilution to shareholders.

Our cash equivalents and short-term investments consist of investment-grade securities, as specified in our investment policy guidelines. The policy limits the amount of credit exposure to any one non-U.S. government or non-U.S. agency issue or issuer to a maximum of 5% of the total portfolio. These securities are subject to interest rate



risk and will decrease in value if interest rates increase. Because we have historically had the ability to hold our fixed income investments until maturity, we do not expect our operating results or cash flows to be significantly affected by a sudden change in market interest rates in our securities portfolio.

We conduct our operations primarily in five functional currencies: the U.S. dollar, the Korean won, the Japanese yen, the British pound and the euro. We currently do not hedge the majority of our foreign currency exposures and are therefore subject to the risk of exchange rate fluctuations. We are exposed to foreign exchange rate fluctuations as the financial results of foreign subsidiaries are translated into U.S. dollars in consolidation. Our exposure to foreign exchange rate fluctuations also arises from intercompany payables and receivables to and from our foreign subsidiaries.

As of December 31, 2015, approximately \$15.1 million of the \$99.1 million of cash, cash equivalents, and short-term investments was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations. Additionally, the Company currently has significant net operating losses and other tax attributes that could be used to offset most potential U.S. income tax that could result if these amounts were distributed to the U.S. We utilize a variety of tax planning and financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed. We do not expect restrictions or potential taxes on repatriation of amounts held outside of the U.S. to have a material effect on our overall liquidity, financial condition or results of operations. As of December 31, 2015, we have not provided for U.S. federal and state income taxes on approximately \$14.1 million of undistributed earnings of our foreign subsidiaries, since such earnings are considered permanently reinvested outside the U.S. or may be remitted tax-free to the U.S. If these amounts were distributed to the U.S. in the future in the form of dividends or otherwise, we could be subject to additional U.S. income taxes. It is not practicable to determine the U.S. federal income tax liability or benefit on such earnings due to the timing of such future distributions, the availability of foreign tax credits, and the complexity of the computation if such earnings were not deemed to be permanently reinvested. If future events, including material changes in estimates of cash, working capital, and long-term investment requirements necessitate that these earnings be repatriated, an additional provision for U.S. income and foreign withholding taxes may be necessary.

#### Contractual Obligations

Please refer to Note 16. Commitments and Contingencies, for details on our contractual obligations, which consist of operating leases for office facilities. For income tax liabilities for uncertain tax positions we cannot make a reasonably reliable estimate of the amount and period of any related future payments. As of December 31, 2015 we had \$0.3 million of gross unrecognized tax benefits for uncertain tax positions.

#### Off-Balance Sheet Arrangements

We have operating lease obligations for office facility leases with future cash commitments that are not required to be recorded on our consolidated balance sheet. Accordingly, these operating lease obligations constitute off-balance sheet arrangements. In addition, since we do not maintain accruals associated with certain guarantees, as discussed in Note 17. Guarantees, those guarantee obligations also constitute off-balance sheet arrangements.

#### Critical Accounting Policies and Estimates

The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Our critical accounting policies and estimates are as follows:

- Revenue recognition;
- Estimating music publishing rights and music royalty accruals;
- Estimating recoverability of deferred costs;
- Estimating allowances for doubtful accounts and sales returns;
- Estimating losses on excess office facilities;
- Valuation of equity method investments;
- Valuation of definite-lived assets;
- Valuation of goodwill and indefinite-lived intangible assets;

Stock-based compensation; and

Accounting for income taxes.

Revenue Recognition. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Physical products are considered delivered to the customer

27

---

once they have been shipped and title and risk of loss have been transferred. For online sales, the products or services are considered delivered at the time the product or services are made available, digitally, to the end user.

We recognize revenue on a gross or net basis. In most arrangements, we contract directly with end user customers, and are the primary obligor. In such arrangements, we recognize revenue on a gross basis. In some cases, we utilize third-party distributors who are the primary obligor to sell products or services directly to end user customers. In such instances, we recognize revenue on a net basis.

In our direct to consumer operations, we derive revenue primarily through (1) subscriptions of SuperPass within our RealPlayer Group segment and subscriptions sold by our Games segment, (2) sales of content downloads, software and licenses offered by our RealPlayer Group, Mobile Entertainment, and Games segments and (3) the sale of advertising and the distribution of third-party products on our websites and in our games.

Consumer subscription products are paid in advance, typically for monthly, quarterly or annual duration. Subscription revenue is recognized ratably over the related subscription time period. Revenue from sales of content downloads, software and licenses is recognized at the time the product is made available, digitally, to the end user. Revenue generated from advertising on our websites and from advertising and the distribution of third-party products included in our products is recognized as revenue at the time of delivery.

We also generate revenue through business-to-business channels by providing services within our Mobile Entertainment segment enabling mobile carriers to deliver audio and video content to their customers and by selling software licenses and products and related support and other services. Revenue generated from services provided to mobile carriers that enable the delivery of audio and video content to their customers is recognized as the services are provided. Setup fees to build these services are recognized ratably upon launch of the service over the remaining expected term of the service.

Non-software revenue arrangements containing multiple elements are divided into separate units of accounting, after being evaluated for specific criteria. If the criteria for separation are met, revenue is allocated to the individual units using the relative price method. If the criteria are not met, the elements are treated as one unit of accounting and revenue recognition is delayed until all elements have been delivered. In the case of revenue arrangements containing software, elements are divided into separate units of accounting only when vendor-specific objective evidence has been established. In cases where vendor-specific objective evidence has not been established, undelivered elements are combined into one unit of accounting and are not recognized in revenue until all elements have been delivered. **Estimating Music Publishing Rights and Music Royalty Accruals.** We have made estimates of amounts that may be owed related to music royalties for our historical domestic and international music services. Material differences may impact the amount and timing of our expense for any period if management made different judgments or utilized different estimates. Under copyright law, we may be required to pay licensing fees for digital sound recordings and compositions we have delivered. Copyright law generally does not specify the rate and terms of the licenses, which are determined by voluntary negotiations among the parties or, for certain compulsory licenses where voluntary negotiations are unsuccessful, by arbitration. Our estimates are based on contracted or statutory rates, when established, or management's best estimates based on facts and circumstances regarding the specific music services and agreements in similar geographies or with similar agencies. While we have based our estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, actual results may differ materially from these estimates under different assumptions or conditions.

During the quarter ended March 31, 2014, certain accrued royalty liabilities of \$10.6 million associated with our historical music business, which had originally been recorded based on statutory rates, were extinguished.

**Estimating Recoverability of Deferred Costs.** We defer costs on projects for service revenue and system sales.

Deferred costs consist primarily of direct and incremental costs to customize and install systems, as defined in individual customer contracts, including costs to acquire hardware and software from third parties and payroll costs for our employees and other third parties. We recognize such costs as a component of cost of revenue, the timing of which is dependent upon the revenue recognition policy by contract. For revenue recognized under the completed contract method, costs are deferred until the products are delivered, or upon completion of services or, where applicable, customer acceptance. For revenue recognized under the percentage of completion method, costs are recognized as products are delivered or services are provided in accordance with the percentage of completion calculation. For revenue recognized ratably over the term of the contract, costs are recognized ratably over the term of

the contract, commencing on the date of revenue recognition. At each balance sheet date, we review deferred costs to ensure they are ultimately recoverable. Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue.

Assessing the recoverability of deferred project costs is based on significant assumptions and estimates, including future revenue and cost of sales. Significant or sustained decreases in revenue or increases in cost of sales in future periods could result in impairments of deferred project costs. We cannot accurately predict the amount and timing of any such impairments.

Should the value of deferred project costs become impaired, we would record the appropriate charge, which could have a material adverse effect on our financial condition or results of operations.

**Estimating Allowances for Doubtful Accounts and Sales Returns.** We make estimates of the uncollectible portion of our accounts receivable. We specifically analyze the age of accounts receivable and historical bad debts, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Similarly, we make estimates of potential future product returns related to current period revenue. We analyze historical returns, current economic trends, and changes in customer demand and acceptance of our products when evaluating the adequacy of the sales returns allowance. Significant judgments and estimates are made and used in connection with establishing allowances for doubtful accounts and sales returns. Material differences may result in the amount and timing of our revenue for any period if we were to make different judgments or utilize different estimates or actual future experience was different from the judgments and estimates.

**Estimating losses on excess office facilities.** We made significant estimates in determining the appropriate amount of accrued loss on excess office facilities, including estimates of sublease income expected to be received. If we make different estimates, our loss on excess office facilities could be significantly different from that recorded, which could have a material impact on our operating results.

**Valuation of Equity Method Investments.** We use the equity method of accounting for investments in circumstances where we have the ability to exert significant influence, but not control, over an investee or joint venture. We record our percentage interest in the investee's recorded income or loss and changes in the investee's capital under this method, which will increase or decrease the reported value of our investment. See Note 4. Rhapsody Joint Venture, for additional information. We initially record our investment based on a fair value analysis of the investment. We evaluate impairment of an investment valued under the equity method if events and circumstances warrant. An impairment charge would be recorded if a decline in value of an equity investment below its carrying amount were determined to be other than temporary. In determining if a decline is other than temporary, we consider factors such as the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investee or joint venture, the near-term and longer-term operating and financial prospects of the investee or joint venture and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

**Valuation of Definite-Lived Assets.** Definite-lived assets consist primarily of property, plant and equipment, as well as amortizable intangible assets acquired in business combinations. Definite-lived assets are amortized on a straight line basis over their estimated useful lives. We review definite-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amount to future undiscounted cash flows the assets are expected to generate. If definite-lived assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their fair market value.

The impairment analysis of definite-lived assets is based upon estimates and assumptions relating to our future revenue, cash flows, operating expenses, costs of capital and capital purchases. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, the cash flows of our long-term operating plans, market and interest rate risk, and risk-commensurate discount rates and cost of capital. Significant or sustained declines in future revenue or cash flows, or adverse changes in our business climate, among other factors, and their resulting impact on the estimates and assumptions relating to the value of our definite-lived assets could result in the need to perform an impairment analysis in future periods which could result in a significant impairment. While we believe our estimates and assumptions are reasonable, due to their complexity and subjectivity, these estimates and assumptions could vary from period to period. Changes in these estimates and assumptions could materially affect the estimate of future undiscounted cash flows and related fair market values of these assets and result in significant impairments, which could have a material adverse effect on our financial condition or results of operations. For further discussion, please see the risk factor entitled, "Any impairment to our goodwill and definite-lived assets could result in a significant charge to our earnings" under Item 1A Risk Factors.

**Valuation of Goodwill and Indefinite-Lived Intangible Assets.** We test goodwill for impairment on an annual basis, in our fourth quarter, or more frequently if circumstances indicate reporting unit carrying values may exceed their fair

values. Circumstances that may indicate a reporting unit's carrying value exceeds its fair value include, but are not limited to: poor economic performance relative to historical or projected future operating results; significant negative industry, economic or company specific trends; changes in the manner of our use of the assets or the plans for our business; and loss of key personnel.

When evaluating goodwill for impairment, based upon our annual test or due to changes in circumstances described above, we first perform a qualitative assessment to determine if the fair value of a reporting unit is more likely than not less

than the reporting unit's carrying amount including goodwill. If this assessment indicates it is more likely than not, we then compare the carrying value of the reporting unit to the estimated fair value of the reporting unit. If the carrying value of the reporting unit exceeds the estimated fair value, we then calculate the implied estimated fair value of goodwill for the reporting unit and compare it to the carrying amount of goodwill for the reporting unit. If the carrying amount of goodwill exceeds the implied estimated fair value, an impairment charge to current operations is recorded to reduce the carrying value to implied estimated value.

Significant judgments and estimates are required in determining the reporting units and assessing the fair value of the reporting units. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, the cash flows of long-term operating plans, market and interest rate risk, and risk-commensurate discount rates and cost of capital.

We evaluate indefinite-lived intangible assets (primarily tradenames and trademarks) for impairment on an annual basis, in the fourth quarter, or more frequently if an event occurs or changes in circumstances indicate that impairment may exist. When evaluating indefinite-lived intangible assets for impairment, we may first perform a qualitative assessment to determine if the fair value of the intangible assets is more likely than not greater than its carrying amount. If we do not perform a qualitative assessment or if the fair value of the intangible assets is not more likely than not greater than its carrying amount, we estimate the fair value of the intangible assets. If the carrying amount of the intangible assets exceeds the estimated fair value, an impairment charge is recorded to reduce the carrying value to the estimated fair value. Significant judgments and estimates are required in assessing the fair value of the indefinite-lived intangible assets. These estimates and assumptions are complex and subject to a significant degree of judgment with respect to certain factors including, but not limited to, the cash flows of long-term operating plans, market and interest rate risk, and risk-commensurate discount rates and cost of capital.

**Stock-Based Compensation.** Stock-based compensation cost is estimated at the grant date based on the award's fair value and is recognized as expense over the requisite service period, which is the vesting period. For stock options, the fair value is calculated using the Black-Scholes option-pricing model or other appropriate valuation models such as Monte Carlo simulation. The valuation models require various highly judgmental assumptions including volatility in our common stock price and expected option life. If any of the assumptions used in the valuation models change significantly, stock-based compensation expense for new awards may differ materially in the future from the amounts recorded in our consolidated statement of operations. For all awards, we are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting forfeitures.

**Accounting for Income Taxes.** We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred income tax expense and deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities and operating loss and tax credit carryforwards are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and operating loss and tax credit carryforwards are expected to be recovered or settled. We must make assumptions, judgments and estimates to determine the current and deferred provision for income taxes, deferred tax assets and liabilities and any valuation allowance to be recorded against deferred tax assets. Our judgments, assumptions, and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation of tax laws and future tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

Each reporting period we must periodically assess the likelihood that our deferred tax assets will be recovered from future sources of taxable income, and to the extent that recovery is not more likely than not, a valuation allowance must be established. The establishment of a valuation allowance and increases to such an allowance result in either increases to income tax expense or reduction of income tax benefit in the statement of operations and comprehensive income. In certain instances, changes in the valuation allowance may be allocated directly to the related components of shareholders' equity on the consolidated balance sheet. Factors we consider in making such an assessment include, but are not limited to, past performance and our expectation of future taxable income, macroeconomic conditions and



issues facing our industry, existing contracts, our ability to project future results and any appreciation of our investments and other assets.

As of December 31, 2015, \$15.1 million of the \$99.1 million of cash, cash equivalents, and short-term investments was held by our foreign subsidiaries.

As of December 31, 2015, we have not provided for U.S. federal and state income taxes on approximately \$14.1 million of undistributed earnings of our foreign subsidiaries, since such earnings are considered indefinitely reinvested outside the U.S. or may be remitted tax-free to the U.S. If these amounts were distributed to the U.S., in the form of dividends or otherwise, RealNetworks could be subject to additional U.S. income and foreign withholding taxes. It is not practicable to determine the foreign withholding and U.S. federal income tax liability or benefit on such earnings due to the timing of such future

distributions, the availability of foreign tax credits, and the complexity of the computation if such earnings were not deemed to be permanently reinvested. If future events, including material changes in estimates of cash, working capital, and long-term investment requirements necessitate that these earnings be distributed, an additional provision for U.S. income and foreign withholding taxes may be necessary.

Recently Issued Accounting Standards

See Note 2. Recent Accounting Pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our market risk involves forward-looking statements. All statements that do not relate to matters of historical fact should be considered forward-looking statements. Actual results could differ materially from those projected in any forward-looking statements.

**Interest Rate Risk.** Our exposure to interest rate risk from changes in market interest rates relates primarily to our short-term investment portfolio. Our short-term investments consist of investment grade debt securities as specified in our investment policy. Investments in both fixed and floating rate instruments carry a degree of interest rate risk. The fair value of fixed rate securities may be adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Additionally, a declining rate environment creates reinvestment risk because as securities mature the proceeds are reinvested at a lower rate, generating less interest income. See Note 5. Fair Value Measurements for additional information. Due in part to these factors, our future interest income may be adversely impacted due to changes in interest rates. In addition, we may incur losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates. Because we have historically had the ability to hold our short-term investments until maturity, we would not expect our operating results or cash flows to be significantly impacted by a sudden change in market interest rates. There have been no material changes in our investment methodology regarding our cash equivalents and short-term investments during the quarter ended December 31, 2015. Based on our cash, cash equivalents, short-term investments, and restricted cash equivalents as of December 31, 2015, a hypothetical 10% increase/decrease in interest rates would not increase/decrease our annual interest income or cash flows by more than a nominal amount.

**Investment Risk.** As of December 31, 2015, we had investments in voting capital stock of both publicly traded and privately held technology companies for business and strategic purposes. See Note 1. Description of Business and Summary of Significant Accounting Policies - Valuation of Equity Method Investments, and Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates (Valuation of equity method investments) in this 10-K for details on our accounting treatment for these investments, including the analysis of other-than-temporary impairments.

**Foreign Currency Risk.** We conduct business internationally in several currencies and thus are exposed to adverse movements in foreign currency exchange rates.

Our exposure to foreign exchange rate fluctuations arise in part from: (1) translation of the financial results of foreign subsidiaries into U.S. dollars in consolidation; (2) the remeasurement of non-functional currency assets, liabilities and intercompany balances into U.S. dollars for financial reporting purposes; and (3) non-U.S. dollar denominated sales to foreign customers. We manage a portion of these risks through the use of financial derivatives, but fluctuations could impact our results of operations and financial position.

Where appropriate, we manage foreign currency risk for certain material short-term intercompany balances through the use of foreign currency forward contracts. These contracts require us to exchange currencies at rates agreed upon at the contract's inception. Because the impact of movements in currency exchange rates on forward contracts offsets the related impact on the short-term intercompany balances, these financial instruments help alleviate the risk that might otherwise result from certain changes in currency exchange rates. We do not designate our foreign exchange forward contracts related to short-term intercompany accounts as hedges and, accordingly, we adjust these instruments to fair value through results of operations. However, we may periodically hedge a portion of our foreign exchange exposures associated with material firmly committed transactions, long-term investments, highly predictable anticipated exposures and net investments in foreign subsidiaries. To the extent we continue to experience adverse economic conditions, our unhedged exposures are impacted by movements in currency exchange rates and we may record losses related to such unhedged exposures in future periods that may have a material adverse effect on our financial condition and results of operations.

Our foreign currency risk management program reduces, but does not entirely eliminate, the impact of currency exchange rate movements.

We have cash balances denominated in foreign currencies which are subject to foreign currency fluctuation risk. The majority of our foreign currency denominated cash is held in Korean won and euros. A hypothetical 10% increase or decrease in the Korean won and euro relative to the U.S. dollar as of December 31, 2015 would not result in a material

impact on our financial position, results of operations or cash flows.

## Item 8. Financial Statements and Supplementary Data

## REALNETWORKS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$47,315	\$103,253
Short-term investments	51,814	58,453
Trade accounts receivable, net of allowances	22,511	15,257
Deferred costs, current portion	460	702
Deferred tax assets, current portion	—	652
Prepaid expenses and other current assets	7,140	8,980
Total current assets	129,240	187,297
Equipment and software	66,702	74,100
Leasehold improvements	3,122	3,590
Total equipment, software, and leasehold improvements	69,824	77,690
Less accumulated depreciation and amortization	61,024	61,442
Net equipment, software, and leasehold improvements	8,800	16,248
Restricted cash equivalents and investments	2,890	3,000
Investment in Rhapsody	—	10,000
Available for sale securities	1,721	2,676
Other assets	2,307	2,299
Deferred costs, non-current portion	212	316
Deferred tax assets, net, non-current portion	957	999
Other intangible assets, net	2,136	10,109
Goodwill	13,080	17,355
Total assets	\$161,343	\$250,299
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$17,050	\$18,653
Accrued and other current liabilities	17,320	25,286
Deferred tax liabilities, net, current portion	—	1,628
Deferred revenue, current portion	3,497	5,301
Total current liabilities	37,867	50,868
Deferred revenue, non-current portion	105	235
Deferred rent	620	1,215
Deferred tax liabilities, net, non-current portion	88	702
Other long-term liabilities	1,980	81
Total liabilities	40,660	53,101
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 36,298 shares in 2015 and 36,099 shares in 2014	36	36
Additional paid-in capital	627,316	617,756

Edgar Filing: REALNETWORKS INC - Form 10-K

Accumulated other comprehensive loss	(59,480	) (55,252	)
Retained deficit	(447,189	) (365,342	)
Total shareholders' equity	120,683	197,198	
Total liabilities and shareholders' equity	\$ 161,343	\$ 250,299	
See accompanying notes to consolidated financial statements.			

33

---

## REALNETWORKS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

	Years Ended December 31,		
	2015	2014	2013
Net revenue (A)	\$125,296	\$156,212	\$206,196
Cost of revenue (B)	70,297	76,381	79,091
Extinguishment of liability	—	(10,580 )	—
Gross profit	54,999	90,411	127,105
Operating expenses:			
Research and development	43,626	52,765	60,880
Sales and marketing	48,231	66,926	80,011
General and administrative	24,549	34,001	36,643
Restructuring and other charges	5,279	4,992	5,765
Lease exit and related charges	2,501	880	3,089
Loss on litigation settlements	—	—	11,525
Total operating expenses	124,186	159,564	197,913
Operating income (loss)	(69,187 )	(69,153 )	(70,808 )
Other income (expenses):			
Interest income, net	680	556	1,133
Gain (loss) on sale of equity and other investments, net	(159 )	2,371	21,389
Equity in net loss of Rhapsody investment	(14,521 )	(4,452 )	(6,268 )
Other income (expense), net	506	143	467
Total other income (expenses), net	(13,494 )	(1,382 )	16,721
Income (loss) before income taxes	(82,681 )	(70,535 )	(54,087 )
Income tax expense (benefit)	(834 )	1,280	4,903
Net income (loss)	\$(81,847 )	\$(71,815 )	\$(58,990 )
Basic net income (loss) per share	\$(2.26 )	\$(2.00 )	\$(1.66 )
Diluted net income (loss) per share	\$(2.26 )	\$(2.00 )	\$(1.66 )
Shares used to compute basic net income (loss) per share	36,165	35,947	35,553
Shares used to compute diluted net income (loss) per share	36,165	35,947	35,553
Comprehensive income (loss):			
Unrealized investment holding gains (losses), net of reclassification adjustments	\$(955 )	\$(4,145 )	\$(20,288 )
Foreign currency translation adjustments, net of reclassification adjustments	(3,273 )	(3,412 )	(867 )
Total other comprehensive income (loss)	(4,228 )	(7,557 )	(21,155 )
Net income (loss)	(81,847 )	(71,815 )	(58,990 )
Comprehensive income (loss)	\$(86,075 )	\$(79,372 )	\$(80,145 )
(A) Components of net revenue:			
License fees	\$28,422	\$28,308	\$43,709
Service revenue	96,874	127,904	162,487
	\$125,296	\$156,212	\$206,196
(B) Components of cost of revenue:			
License fees	\$6,381	\$8,012	\$8,538
Service revenue	63,916	68,369	70,553
	\$70,297	\$76,381	\$79,091

See accompanying notes to consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income (loss)	\$(81,847 )	\$(71,815 )	\$(58,990 )
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,410	11,959	18,748
Stock-based compensation	4,698	5,204	7,468
Equity in net loss of Rhapsody	14,521	4,452	6,268
Lease exit and related charges	2,501	668	1,421
Deferred income taxes, net	(1,558 )	(237 )	676
Loss (gain) on sale of available for sale securities	159	(2,371 )	(21,389 )
Realized translation gain	(264 )	(48 )	(571 )
Extinguishment of liability	—	(10,580 )	—
Fair value of warrants, net of mark to market adjustments	(1,053 )	—	—
Other	—	—	51
Net change in certain operating assets and liabilities:			
Trade accounts receivable	(8,236 )	8,732	8,442
Deferred costs, prepaid expenses and other assets	2,606	1,982	8,112
Accounts payable	(465 )	(769 )	321
Accrued and other liabilities	(10,454 )	(7,421 )	(20,436 )
Net cash provided by (used in) operating activities	(68,982 )	(60,244 )	(49,879 )
Cash flows from investing activities:			
Purchases of equipment, software, and leasehold improvements	(1,319 )	(2,460 )	(7,727 )
Proceeds from sale of available for sale securities	459	2,754	29,153
Purchases of short-term investments	(72,136 )	(81,216 )	(131,690 )
Proceeds from sales and maturities of short-term investments	78,775	97,683	164,986
Decrease in restricted cash equivalents and investments	110	—	10,000
Increase in restricted cash equivalents and investments	—	—	(3,000 )
Acquisitions, net of cash acquired	(161 )	(733 )	(22,480 )
Advance to Rhapsody	(5,000 )	—	—
Repayment from Rhapsody	5,000	—	—
Proceeds from the sale of Slingo and social casino business	10,000	—	—
Other	—	(467 )	—
Net cash provided by (used in) investing activities	15,728	15,561	39,242
Cash flows from financing activities:			
Proceeds from issuance of common stock (stock options and stock purchase plan)	426	812	594
Tax payments from shares withheld upon vesting of restricted stock	(85 )	(407 )	(1,201 )
Payment of contingent consideration	—	(1,042 )	(828 )
Net cash provided by (used in) financing activities	341	(637 )	(1,435 )
Effect of exchange rate changes on cash and cash equivalents	(3,025 )	(2,662 )	109
Net increase (decrease) in cash and cash equivalents	(55,938 )	(47,982 )	(11,963 )
Cash and cash equivalents, beginning of year	103,253	151,235	163,198
Cash and cash equivalents, end of year	\$47,315	\$103,253	\$151,235
Supplemental disclosure of cash flow information:			
Cash received from income tax refunds	\$1,102	\$654	\$8,405



Edgar Filing: REALNETWORKS INC - Form 10-K

Cash paid for income taxes	\$1,491	\$1,882	\$4,600
Non-cash investing activities:			
Increase (decrease) in accrued purchases of equipment, software, and leasehold improvements	\$(150)	) \$(297	) \$335
Acquisition of intangible assets	\$102	\$—	\$—
See accompanying notes to consolidated financial statements.			

35

---

REALNETWORKS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Shareholders' Equity
	Shares	Amount				
Balances, December 31, 2012	35,324	\$35	\$603,770	\$(26,540)	\$(234,537)	\$342,728
Common stock issued for exercise of stock options, employee stock purchase plan, and vesting of restricted shares, net of tax payments from shares withheld upon vesting of restricted stock	509	1	(608)	—	—	(607)
Share of Rhapsody equity transactions	—	—	(463)	—	—	(463)
Stock-based compensation	—	—	7,468	—	—	7,468
Other comprehensive income (loss)	—	—	—	(21,155)	—	(21,155)
Net income (loss)	—	—	—	—	(58,990)	(58,990)
Balances, December 31, 2013	35,833	\$36	\$610,167	\$(47,695)	\$(293,527)	\$268,981
Common stock issued for exercise of stock options, employee stock purchase plan, and vesting of restricted shares, net of tax payments from shares withheld upon vesting of restricted stock	266	—	405	—	—	405
Share of Rhapsody equity transactions	—	—	1,980	—	—	1,980
Stock-based compensation	—	—	5,204	—	—	5,204
Other comprehensive income (loss)	—	—	—	(7,557)	—	(7,557)
Net income (loss)	—	—	—	—	(71,815)	(71,815)
Balances, December 31, 2014	36,099	\$36	\$617,756	\$(55,252)	\$(365,342)	\$197,198
Common stock issued for exercise of stock options, employee stock purchase plan, and vesting of restricted shares, net of	199	—	341	—	—	341

tax payments from shares  
withheld upon vesting of  
restricted stock

Share of Rhapsody equity transactions	—	—	4,521	—	—	4,521
Stock-based compensation	—	—	4,698	—	—	4,698
Other comprehensive income (loss)	—	—	—	(4,228	) —	(4,228 )
Net income (loss)	—	—	—	—	(81,847	) (81,847 )
Balances, December 31, 2015	36,298	\$36	\$627,316	\$(59,480	) \$(447,189	) \$120,683

See accompanying notes to consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2015, 2014 and 2013

Note 1. Description of Business and Summary of Significant Accounting Policies

Description of Business. RealNetworks, Inc. and subsidiaries is a leading global provider of network-delivered digital media applications and services that make it easy to manage, play and share digital media. The Company also develops and markets software products and services that enable the creation, distribution and consumption of digital media, including audio and video.

Inherent in our business are various risks and uncertainties, including a limited history of certain of our product and service offerings. RealNetworks' success will depend on the acceptance of our technology, products and services and the ability to generate related revenue.

In this Annual Report on Form 10-K for the year ended December 31, 2015 (10-K), RealNetworks, Inc. and subsidiaries is referred to as "RealNetworks", the "Company", "we", "us", or "our".

Basis of Presentation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations for the periods presented. Operating results for the year ended December 31, 2015 are not necessarily indicative of the results that may be expected for any subsequent periods.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents, Short-Term Investments, and Available-for-Sale Securities. We consider all short-term investments with a remaining contractual maturity at date of purchase of three months or less to be cash equivalents. We have classified as available-for-sale all marketable debt and equity securities for which there is determinable fair market value and there are no restrictions on our ability to sell. Available-for-sale securities are carried at fair value with unrealized gains and losses reported in accumulated other comprehensive income (loss) (AOCI) in shareholders' equity, net of any applicable income taxes. Investments with remaining contractual maturities of five years or less are classified as short-term because the investments are marketable and highly liquid, and we have the ability to utilize them for current operations. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in other income (expense), net. Realized and unrealized gains and losses on available-for-sale securities are determined using the specific identification method.

Trade Accounts Receivable. Trade accounts receivable consist of amounts due from customers and do not bear interest. The allowance for doubtful accounts and sales returns is our estimate of the amount of probable credit losses and returns in our existing accounts receivable. We determine the allowances based on analysis of historical bad debts, customer concentrations, customer credit-worthiness, return history and current economic trends. We review the allowances for doubtful accounts and sales returns quarterly. Past due balances over 90 days and specified other balances are reviewed individually for collectability. All other balances are reviewed on an aggregate basis. Account balances are written off against the allowance after all reasonable means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance sheet credit exposure related to our customers.

Concentration of Credit Risk. Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, and accounts receivable. Short-term investments consist of U.S. government and government agency securities, corporate notes and bonds, and municipal securities. We derive a portion of our revenue from a large number of individual consumers spread globally. We also derive revenue from several large customers. If the financial condition or results of operations of any one of the large customers deteriorates substantially, our operating results could be adversely affected. To reduce credit risk, management performs ongoing credit evaluations of the financial condition of significant customers. We do not

generally require collateral and we maintain an allowance for estimated credit losses on customer accounts when considered necessary.

**Depreciation and Amortization.** Depreciation of equipment and software, as well as amortization of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful lives of the assets or the related lease term. The useful life of equipment and software is generally three to five years.

Depreciation and amortization expense of these assets during the years ended December 31, 2015, 2014, and 2013 was \$8.1 million, \$8.5 million, and \$14.3 million, respectively.

**Equity Method Investment.** We use the equity method in circumstances where we have the ability to exert significant influence, but not control, over an investee or joint venture. We initially record our investment based on a fair value analysis of the investment. We record our percentage interest in the investee's recorded income or loss and changes in the investee's capital under this method, which will increase or decrease the reported value of our investment. See Note 4, Rhapsody Joint Venture, to the audited consolidated financial statements included in Item 8 of this 10-K, for additional information.

We evaluate impairment of an investment accounted for under the equity method if events and circumstances warrant. An impairment charge would be recorded if a decline in the fair value of an equity investment below its carrying amount were determined to be other than temporary. In determining if a decline is other than temporary, we consider factors such as the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investee or joint venture, the near-term and longer-term operating and financial prospects of the investee or joint venture and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

**Deferred Costs.** We defer certain costs on projects for service revenues and system sales. Deferred costs consist primarily of direct and incremental costs to customize and install systems, as defined in individual customer contracts, including costs to acquire hardware and software from third parties and payroll and related costs for employees and other third parties. Deferred costs are capitalized during the implementation period.

We recognize such costs as a component of cost of revenue, the timing of which is dependent upon the revenue recognition policy by contract. At each balance sheet date, we review deferred costs to ensure they are ultimately recoverable. Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue or if actual deferred costs exceed estimated contractual revenue. Assessing the recoverability of deferred costs is based on significant assumptions and estimates, including future revenue and cost of sales. Significant or sustained decreases in revenue or increases in cost of sales in future periods could result in impairments of deferred project costs and prepaid royalty advances. We cannot accurately predict the amount and timing of any such impairments. Should deferred project costs or prepaid royalty advances become impaired, we would record the appropriate charge, which could have a material adverse effect on our financial condition and results of operations.

As of December 31, 2014, we determined that the total estimated costs associated with a project exceeded the total estimated revenues expected to be recognized on that project. As a result, we impaired \$0.7 million in deferred project costs. This charge was included in cost of revenue in the accompanying consolidated statements of operations and comprehensive income (loss). No such charges were incurred in 2015 or 2013.

**Definite-Lived Tangible and Intangible Assets.** Definite-lived tangible assets include equipment, software and leasehold improvements and are carried at cost less accumulated depreciation and amortization. Definite-lived intangible assets consist primarily of the fair value of customer agreements and contracts, and developed technology acquired in business combinations and are amortized over their estimated useful lives.

We review these assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. If the carrying amount of an asset group is not recoverable, an impairment loss is recognized if the carrying amount of the asset group exceeds its estimated fair value, which is generally determined as the present value of estimated future cash flows to a market participant. Our impairment analysis is based on significant assumptions of future results, including operating and cash flow projections. Significant or sustained declines in future revenue or cash flows, or adverse changes in our business climate, among other factors, could result in the need to record an impairment charge in future periods.

**Goodwill.** We test goodwill for impairment on an annual basis, in our fourth quarter, or more frequently if circumstances indicate reporting unit carrying values may exceed their fair values. Circumstances that may indicate a reporting unit's carrying value exceeds its fair value include, but are not limited to: poor economic performance relative to historical or projected future operating results; significant negative industry, economic or company specific trends; changes in the manner of our use of the assets or the plans for our business; and loss of key personnel.

When evaluating goodwill for impairment, based upon our annual test or due to changes in circumstances described above, we first perform a qualitative assessment to determine if the fair value of a reporting unit is more likely than not less than the reporting unit's carrying amount including goodwill. If this assessment indicates it is more likely than not, we then compare the carrying value of the reporting unit to the estimated fair value of the reporting unit. If the carrying value of the reporting unit exceeds the estimated fair value, we then calculate the implied estimated fair value of goodwill for the reporting unit and compare it to the carrying amount of goodwill for the reporting unit. If the carrying amount of goodwill exceeds the implied estimated fair value, an impairment charge to current operations is recorded to reduce the carrying value to implied

estimated value. Significant judgment is required in determining the reporting units and assessing fair value of the reporting units.

**Indefinite-Lived Intangible Assets.** We evaluate indefinite-lived intangible assets (primarily tradenames and trademarks) for impairment on an annual basis, in the fourth quarter, or more frequently if an event occurs or changes in circumstances indicate that impairment may exist. When evaluating indefinite-lived intangible assets for impairment, we may first perform a qualitative assessment to determine if the fair value of the intangible assets is more likely than not greater than its carrying amount. If we do not perform a qualitative assessment or if the fair value of the intangible assets is not more likely than not greater than its carrying amount, we estimate the fair value of the intangible assets. If the carrying amount of the intangible assets exceeds the estimated fair value, an impairment charge is recorded to reduce the carrying value to the estimated fair value. Significant judgment is required in assessing fair value of the indefinite-lived intangible assets. With the sale of our Slingo and social casino game business in 2015 as described in more detail in Note 3. Acquisitions and Disposals, we had no indefinite-lived intangible assets at December 31, 2015.

**Fair Value.** Fair value is the price that would be received from selling an asset or paid in transferring a liability in an orderly transaction between market participants at the measurement date. Our fair value measurements consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

Fair values are determined based on three levels of inputs:

• **Level 1:** Quoted prices in active markets for identical assets or liabilities

• **Level 2:** Directly or indirectly observed inputs for the asset or liability, including quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active

• **Level 3:** Significant unobservable inputs that reflect our own estimates of assumptions that market participants would use

**Research and Development.** Costs incurred in research and development are expensed as incurred. Software development costs are capitalized when a product's technological feasibility has been established through the date the product is available for general release to customers. Other than internal use software, we have not capitalized any software development costs, as technological feasibility is generally not established until a working model is completed, at which time substantially all development is complete.

**Revenue Recognition.** We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Physical products are considered delivered to the customer once they have been shipped and title and risk of loss have been transferred. For online sales, the products or services are considered delivered at the time the products or services are made available, digitally, to the end user.

We recognize revenue on a gross or net basis. In most arrangements, we contract directly with end user customers, and are the primary obligor. In such arrangements, we recognize revenue on a gross basis. In some cases, we utilize third-party distributors who are the primary obligor to sell products or services directly to end user customers. In such instances, we recognize revenue on a net basis.

In our direct to consumer operations, we derive revenue through (1) subscriptions of our SuperPass and Real Player Cloud products within our RealPlayer Group segment and subscriptions sold by our Games segment, (2) sales of content downloads, software and licenses offered by our RealPlayer Group, Mobile Entertainment, and Games segments and (3) the sale of advertising and the distribution of third-party products on our websites and in our games. Consumer subscription products are paid in advance, typically for monthly, quarterly or annual duration. Subscription revenue is recognized ratably over the related subscription time period. Revenue from sales of content downloads, software and licenses is recognized at the time the product is made available, digitally, to the end user. Revenue generated from advertising on our websites and from advertising and the distribution of third-party products included in our products is recognized as revenue at the time of delivery.

We also generate revenue through business-to-business channels by providing services within our Mobile Entertainment segment enabling mobile carriers to deliver audio and video content to their customers and by selling software licenses and products and related support and other services. Revenue generated from services provided to



mobile carriers that enable the delivery of audio and video content to their customers is recognized as the services are provided. Setup fees to build these services are recognized ratably upon launch of the service over the remaining expected term of the service.

Non-software revenue arrangements containing multiple elements are divided into separate units of accounting, after being evaluated for specific criteria. If the criteria for separation are met, revenue is allocated to the individual units using the relative fair value method. If the criteria are not met, the elements are treated as one unit of accounting and revenue recognition

is delayed until all elements have been delivered. In the case of revenue arrangements containing software, elements are divided into separate units of accounting only when vendor-specific objective evidence has been established. In cases where vendor-specific objective evidence has not been established, undelivered elements are combined into one unit of accounting and are not recognized in revenue until all elements have been delivered.

**Advertising Expenses.** We expense the cost of advertising and promoting our products as incurred. These costs are included in sales and marketing expense and totaled \$16.5 million in 2015, \$23.1 million in 2014 and \$30.6 million in 2013.

**Foreign Currency.** The functional currency of the Company's foreign subsidiaries is the currency of the country in which the subsidiary operates. Assets and liabilities of foreign operations are translated into U.S. dollars using rates of exchange in effect at the end of the reporting period. The net gain or loss resulting from translation is shown as translation adjustment and included in AOCI in shareholders' equity. Income and expense accounts are translated into U.S. dollars using average rates of exchange. Gains and losses from foreign currency transactions are included in the consolidated statements of operations.

**Derivative Financial Instruments.** We conduct business internationally in several currencies and thus we are exposed to adverse movements in foreign currency exchange rates. A portion of these risks may be managed through the use of financial derivatives, but fluctuations in foreign exchange rates could impact our results of operations and financial position.

Where appropriate, we manage foreign currency risk for certain material short-term intercompany balances through the use of foreign currency forward contracts. These contracts require us to exchange currencies at rates agreed upon at the contract's inception. Because the impact of movements in currency exchange rates on forward contracts offsets the related impact on the short-term intercompany balances, these financial instruments help alleviate the risk that might otherwise result from certain changes in currency exchange rates. We do not designate foreign exchange forward contracts related to short-term intercompany accounts as hedges and, accordingly, we adjust these instruments to fair value through our results of operations. However, we may periodically hedge a portion of our foreign exchange exposures associated with material firmly committed transactions and long-term investments.

All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated a hedge, then depending on the nature of the hedge, changes in fair value will either be recorded immediately in results of operations, or be recognized in AOCI until the hedged item is recognized in results of operations.

We had nominal amounts of derivatives outstanding at either December 31, 2015 or 2014.

**Accounting for Taxes Collected from Customers.** Our revenues are reported net of sales and other transaction taxes that are collected from customers and remitted to taxing authorities.

**Income Taxes.** We compute income taxes using the asset and liability method, under which deferred income taxes are provided for temporary differences between financial reporting basis and tax basis of our assets and liabilities and operating loss and tax credit carryforwards. We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the appropriate taxing jurisdictions. Adjustments to the valuation allowance could be required in the future if we estimate that the amount of deferred tax assets to be realized is more or less than the net amount we have recorded. Any increase or decrease in the valuation allowance could have the effect of increasing or decreasing the income tax provision in the statement of operations. Deferred tax assets and liabilities and operating loss and tax credit carryforwards are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and operating loss and tax credit carryforwards are expected to be recovered or settled.

We file numerous consolidated and separate income tax returns in the U.S. including federal, state and local, as well as foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal income tax examinations for tax years before 2013 or state, local, or foreign income tax examinations for years before 1993. We are currently under audit by various states and foreign jurisdictions for certain tax years subsequent to 1993.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater

than 50% likelihood of being realized upon ultimate settlement. We recognize accrued interest and penalties related to uncertain tax positions as a component of income tax expense.

**Stock-Based Compensation.** Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. We use the Black-Scholes option-pricing model or other appropriate valuation models such as Monte Carlo simulation to determine the fair value of

stock-based option awards. The fair value of restricted stock awards is based on the closing market price of our common stock on the award date. Generally, we recognize the compensation cost for awards on a straight-line basis for the entire award, over the applicable vesting period. For performance-based awards, expense is recognized when it is probable the performance goal will be achieved, however if the likelihood becomes improbable, that expense is reversed. For market-based stock options, fair value is measured at the grant date using the Monte Carlo simulation model and we recognize compensation cost for these awards on a straight-line basis over the requisite service period for each separately vesting portion of the awards. For our employee stock purchase plan, compensation expense is measured based on the discount the employee is entitled to upon purchase.

The valuation models for stock-based option awards require various highly judgmental assumptions including volatility in our common stock price and expected option life. If any of the assumptions used in the valuation models change significantly, stock-based compensation expense for new awards may differ materially in the future from the amounts recorded in the consolidated statements of operations. For all awards, we also estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates.

**Net Income Per Share.** Basic net income (loss) per share (EPS) is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income (loss) by the weighted average number of common and dilutive potential common shares outstanding during the period.

#### Note 2. Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued a new standard, "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern". This standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. The new guidance is effective for all annual and interim periods ending after December 15, 2016. We are currently evaluating the impact, if any, the adoption of this standard will have on our consolidated financial statements.

In May 2014, the FASB issued new revenue recognition guidance. The guidance will require an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new guidance is effective for us on January 1, 2018; with early adoption permitted beginning January 1, 2017. The guidance permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that the guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor determined the effect of the standard on our ongoing financial reporting.

In November 2015, the FASB issued new guidance related to the presentation of deferred income taxes, requiring that deferred tax assets and liabilities be classified as non-current on the balance sheet. The new guidance will be effective for us on January 1, 2017, including interim periods within 2017. As permitted, we have elected to early adopt the new guidance, and have reclassified our net current deferred tax assets and liabilities to net non-current deferred tax assets and liabilities in our Consolidated Balance Sheet as of December 31, 2015. As permitted, we have not retrospectively adjusted prior year amounts.

In February 2016, the FASB issued new guidance related to the accounting for leases by lessees. A major change in the new guidance is that lessees will be required to present right-of-use assets and lease liabilities on the balance sheet. The new guidance will be effective for us on January 1, 2019, including interim periods within 2019. We will be evaluating the effect that the guidance will have on our consolidated financial statements and related disclosures. There have been no other recent accounting pronouncements or changes in accounting pronouncements to be implemented that are of significance or potential significance to RealNetworks.

#### Note 3. Acquisitions and Disposals

**2013 Purchase of Slingo, Inc.** In the quarter ended June 30, 2013, we acquired 100% of the voting interests in Slingo, Inc., a social casino games company based in the U.S., for total cash consideration of \$15.6 million. The tangible and intangible assets and liabilities recognized were reported within the Games segment. The identifiable intangible assets associated with the acquisition totaled \$8.0 million. Of this total, \$4.5 million was related to tradenames and trademarks determined to have indefinite useful lives and \$3.5 million included developed game technology and

existing customer relationships, amortized over their estimated useful lives. We recorded a net deferred tax liability of \$2.7 million related to the intangible assets acquired. Goodwill totaling \$9.9 million was recorded, representing the excess of purchase consideration over the fair value of

41

---

net acquired assets, and was primarily related to the assembled workforce and expected synergies in the rapidly growing social casino games market. The goodwill is not deductible for income tax purposes.

**2013 Purchase of Muzicall Ltd.** In the quarter ended September 30, 2013, we acquired 100% of the voting interests in Muzicall Limited, a ringback tone company based in London, for total cash consideration of \$6.7 million. The tangible and intangible assets and liabilities recognized are reported in the Mobile Entertainment segment. The identifiable intangible assets associated with the acquisition totaled \$5.4 million, and include tradenames and trademarks, developed technology, user base and carrier relationships. All identifiable intangible assets from this acquisition are being amortized over their estimated useful lives. We recorded a net deferred tax asset of \$3.4 million related to the assets acquired, and a full valuation allowance. Goodwill totaling \$1.3 million was recorded, representing the excess of purchase consideration over the fair value of net acquired assets, and was primarily related to the assembled workforce and expected synergies in the ringback tone industry. The goodwill is not deductible for income tax purposes. This acquisition has helped us accelerate our growth initiatives within the Mobile Entertainment segment.

**2015 Sale of Slingo and social casino business.** On July 24, 2015, we entered into an agreement to sell the Slingo and social casino portion of our games business to Gaming Realms plc for \$18.0 million. Of this amount, \$10.0 million of the total consideration was paid in cash at closing and the remaining \$8.0 million will be payable either all in cash or a mix of cash and Gaming Realms plc stock, at our election, on the first and second anniversaries of the closing. The transaction closed on August 10, 2015.

With the transaction, Gaming Realms plc assumed the operations of our Slingo and social casino businesses, including substantially all of the related assets and liabilities, as well as the stock of Backstage Technologies Incorporated. The disposed assets and liabilities consisted of intangible assets of \$5.7 million, net property, plant and equipment of \$0.3 million, and other net assets of \$0.4 million, as well as a deferred tax liability of \$1.6 million related to the indefinite-lived Slingo trade name, which is included as part of the intangible assets disposed of in the sale. Goodwill totaling \$3.6 million was also disposed as part of the transaction based on the relative fair values of the business disposed of and the portion of the games reporting unit retained.

As this sale did not represent a strategic shift in our business and we do not believe it will have a major impact on our future operations and financial results, it did not meet the criteria for discontinued operations under GAAP. As such, we have recorded the related foreign currency gain of \$0.5 million in Other income and expense on the consolidated statement of operations. In addition, we have recognized an income tax benefit of \$1.6 million from the reversal of a Slingo deferred tax liability as described above. Based on several factors, including the timing of the receipt of the remaining \$8.0 million consideration, we have deferred the remaining gain of \$8.0 million and will recognize that gain upon realization.

#### Note 4. Rhapsody Joint Venture

As of December 31, 2015 we owned approximately 43% of the issued and outstanding stock of Rhapsody and account for our investment using the equity method of accounting.

Rhapsody was initially formed in 2007 as a joint venture between RealNetworks and MTV Networks, a division of Viacom International Inc. (MTVN), to own and operate a business-to-consumer digital audio music service known as Rhapsody.

Following certain restructuring transactions effective March 31, 2010, we began accounting for our investment in Rhapsody using the equity method of accounting. As part of the 2010 restructuring transactions, RealNetworks contributed \$18.0 million in cash, the Rhapsody brand and certain other assets, including content licenses, in exchange for shares of convertible preferred stock of Rhapsody, carrying a \$10.0 million preference upon certain liquidation events.

We recorded our share of losses of Rhapsody of \$14.5 million, \$4.5 million, and \$6.3 million for the years ended December 31, 2015, 2014 and 2013, respectively. Because of the \$10.0 million liquidation preference on the preferred stock we hold in Rhapsody, under the equity method of accounting we did not record any share of Rhapsody losses that would reduce our carrying value of Rhapsody, which is impacted by Rhapsody equity transactions, below \$10.0 million, until Rhapsody's book value was reduced below \$10.0 million which occurred in the first quarter of 2015. As

of December 31, 2015, the carrying value of our Rhapsody equity investment was zero, as we do not record any share of Rhapsody losses that would reduce our carrying value of Rhapsody below zero unless we commit to provide financial support for Rhapsody. The carrying value of our Rhapsody investment was \$10.0 million at December 31, 2014.

In March 2015, RealNetworks extended a \$5.0 million loan to Rhapsody, as did the other 43% owner of Rhapsody. The loans had original maturity dates of June 2018, or earlier, if Rhapsody's certain loan to an external strategic partner was repaid

in full. The loans to Rhapsody bore interest at the greater of prime plus 5.25% or 9% per annum. During 2015, Rhapsody's external strategic partner repaid its loan to Rhapsody and Rhapsody then repaid its loan to us and the other 43% owner in full. Under the loan, Rhapsody paid us approximately \$0.2 million of interest in 2015.

Summarized financial information for Rhapsody, which represents 100% of their financial information, is as follows (in thousands):

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Net revenue	\$201,987	\$173,484	\$140,596
Gross profit	32,761	32,145	34,141
Net loss	(35,479	) (21,336	) (14,663
		As of December 31, 2015	As of December 31, 2014
Current assets		\$53,274	\$47,021
Non-current assets		20,520	20,616
Current liabilities		92,794	65,458
Non-current liabilities		20,295	16,487

#### Note 5. Fair Value Measurements

##### Items Measured at Fair Value on a Recurring Basis

The following tables present information about our financial assets that have been measured at fair value on a recurring basis as of December 31, 2015 and 2014, and indicates the fair value hierarchy of the valuation inputs utilized to determine fair value (in thousands).

	Fair Value Measurements as of				Amortized Cost as of December 31, 2015
	December 31, 2015				
	Level 1	Level 2	Level 3	Total	
Cash and cash equivalents:					
Cash	\$23,152	\$—	\$—	\$23,152	\$23,152
Money market funds	5,061	—	—	5,061	5,061
Corporate notes and bonds	—	19,102	—	19,102	19,102
Total cash and cash equivalents	28,213	19,102	—	47,315	47,315
Short-term investments:					
Corporate notes and bonds	—	51,814	—	51,814	51,862
Total short-term investments	—	51,814	—	51,814	51,862
Restricted cash equivalents and investments	—	2,890	—	2,890	2,890
Equity investments in publicly traded securities	1,721	—	—	1,721	362
Warrant issued by Rhapsody (included in Other assets)	—	—	1,053	1,053	—
Total	\$29,934	\$73,806	\$1,053	\$104,793	\$102,429



	Fair Value Measurements as of				Amortized Cost as of
	December 31, 2014				December 31, 2014
	Level 1	Level 2	Level 3	Total	
Cash and cash equivalents:					
Cash	\$30,105	\$—	\$—	\$30,105	\$30,105
Money market funds	11,629	—	—	11,629	11,630
Corporate notes and bonds	—	61,519	—	61,519	61,520
Total cash and cash equivalents	41,734	61,519	—	103,253	103,255
Short-term investments:					
Corporate notes and bonds	—	51,453	—	51,453	51,438
U.S. government agency securities	7,000	—	—	7,000	7,000
Total short-term investments	7,000	51,453	—	58,453	58,438
Restricted cash equivalents and investments	—	3,000	—	3,000	3,000
Equity investments in publicly traded securities	2,676	—	—	2,676	428
Total	\$51,410	\$115,972	\$—	\$167,382	\$165,121

Restricted cash equivalents and investments as of December 31, 2015 and 2014 relate to cash pledged as collateral against letters of credit in connection with lease agreements.

Realized gains or losses on sales of short-term investment securities for 2015, 2014, and 2013 were not significant. Gross unrealized gains and gross unrealized losses on short-term investment securities as of December 31, 2015 and 2014 were not significant.

Investments with remaining contractual maturities of five years or less are classified as short-term because the investments are marketable and highly liquid, and we have the ability to utilize them for current operations.

Contractual maturities of short-term investments as of December 31, 2015 are as follows (in thousands):

	Estimated Fair Value
Within one year	\$51,389
Between one year and five years	425
Total short-term investments	\$51,814

Our equity investment in a publicly traded company as of December 31, 2015 and 2014 consisted of J-Stream Inc., a Japanese media services company. This equity investment is accounted for as available for sale. In 2015, we sold a portion of the J-Stream shares we held, resulting in cash proceeds of \$0.5 million and a pre-tax gain of \$0.4 million, reported in Other income (expense), net, in the consolidated statement of operations. In 2014, we sold a portion of the J-Stream shares we held, resulting in cash proceeds of \$2.8 million and a pre-tax gain of \$2.4 million.

In 2013 we sold shares of common stock in LoEn Entertainment, Inc., a Korean digital music distribution company, resulting in cash proceeds of \$29.2 million, net of transaction costs, and a total pre-tax gain of \$21.4 million.

In February 2015, Rhapsody issued warrants to purchase Rhapsody common shares to each of RealNetworks and Rhapsody's one other 43% stockholder. The warrants were issued as compensation for past services provided by RealNetworks and the other 43% stockholder, and both warrants covered the same number of underlying shares. The exercise price of the warrants was equal to the fair value of the underlying shares on the issuance date, and we used the Black-Scholes option-pricing model to calculate the fair value of the warrant, using an expected term of 5 years and expected volatility of 55%. On the date of issuance, we recognized and recorded the \$1.2 million fair value of the warrant issued to RealNetworks within Other assets in the consolidated balance sheets, and as an expense reduction within General and administrative expense in the consolidated statements of operations. The warrants are free-standing derivatives and as such their fair value is determined each quarter using updated inputs in the Black-Scholes option-pricing model. During the twelve months ended December 31, 2015 the decrease in the fair value of the warrants from that originally recorded was approximately \$0.1 million



Items Measured at Fair Value on a Non-recurring Basis

Certain of our assets and liabilities are measured at estimated fair value on a non-recurring basis, using Level 3 inputs. These instruments are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). We did not record any impairments on those assets required to be measured at fair value on a non-recurring basis in 2015, 2014 or 2013.

See Note 11. Lease Exit and Related Charges, for a discussion of the losses related to reductions in the use of RealNetworks' office space, which were recorded at the estimated fair value of remaining lease obligations, less expected sub-lease income.

Note 6. Allowance for Doubtful Accounts Receivable and Sales Returns

Activity in the allowance for doubtful accounts receivable (in thousands):

	Years ended December 31,		
	2015	2014	2013
Balance, beginning of year	\$1,288	\$966	\$1,010
Addition (reduction) to allowance	(355 )	433	(2 )
Amounts written off	(77 )	—	(83 )
Effects of foreign currency translation	(91 )	(111 )	41
Balance, end of year	\$765	\$1,288	\$966

Activity in the allowance for sales returns (in thousands):

	Years ended December 31,		
	2015	2014	2013
Balance, beginning of year	\$354	\$569	\$653
Addition (reduction) to allowance	(186 )	(209 )	(64 )
Amounts written off	(9 )	(6 )	(21 )
Effects of foreign currency translation	(1 )	—	1
Balance, end of year	\$158	\$354	\$569
Total, Allowance for Doubtful Accounts Receivable and Sales Returns	\$923	\$1,642	\$1,535

One customer accounted for 52% and one other customer accounted for 12% of trade accounts receivable as of December 31, 2015. One customer accounted for 21% and one other customer accounted for 15% of trade accounts receivable as of December 31, 2014.

One customer accounted for approximately 26% or \$32.9 million, of consolidated revenue during the year ended December 31, 2015, in our Mobile Entertainment segment.

One customer accounted for 20%, or \$31.9 million, of consolidated revenue during the year ended December 31, 2014, in our Mobile Entertainment segment.

One customer accounted for 13%, or \$27.0 million, of consolidated revenue during the year ended December 31, 2013, in our RealPlayer and Games segments. One other customer accounted for 13%, or \$26.4 million, of consolidated revenue during the year ended December 31, 2013, in our Mobile Entertainment segment.

Note 7. Other Intangible Assets

Other intangible assets (in thousands):

	As of December 31,			As of December 31,		
	2015	2014		2015	2014	
	Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
<b>Amortizing intangible assets:</b>						
Customer relationships	\$30,182	\$29,236	\$946	\$33,853	\$31,643	\$2,210
Developed technology	24,047	23,244	803	28,261	25,699	2,562
Patents, trademarks and tradenames	3,717	3,398	319	3,817	3,528	289
Service contracts	5,269	5,201	68	6,312	5,764	548
	63,215	61,079	2,136	72,243	66,634	5,609
<b>Non-amortizing intangible assets:</b>						
Trademarks and tradenames	—	—	—	4,500	—	4,500
Total	\$63,215	\$61,079	\$2,136	\$76,743	\$66,634	\$10,109

As discussed in Note 3. Acquisitions and Disposals, \$5.7 million worth of intangible assets, net, related to the third quarter 2015 sale of our Slingo and social casino portion of our games business, were disposed.

Amortization expense related to other intangible assets during the years ended December 31, 2015, 2014, and 2013 was \$2.3 million, \$3.4 million, and \$4.4 million, respectively.

Estimated future amortization of other intangible assets (in thousands):

2016	\$1,096
2017	686
2018	354
Total	\$2,136

No impairments of other intangible assets were recognized in 2015, 2014 or 2013.

Note 8. Goodwill

Changes in goodwill (in thousands):

	December 31,	
	2015	2014
Balance, beginning of year		
Goodwill	\$328,008	\$328,129
Accumulated impairment losses	(310,653)	(310,653)
	17,355	17,476
Increases (decreases) due to current year acquisitions (disposals)	(3,620)	460
Effects of foreign currency translation	(655)	(581)
	(4,275)	(121)
Balance, end of year		
Goodwill	323,733	328,008
Accumulated impairment losses	(310,653)	(310,653)
	\$13,080	\$17,355

Goodwill by segment (in thousands):

	December 31,	
	2015	2014
RealPlayer Group	\$945	\$985
Mobile Entertainment	1,837	1,976
Games	10,298	14,394
Total goodwill	\$13,080	\$17,355

As discussed in Note 3. Acquisitions and Disposals, \$3.6 million of goodwill was disposed of in the third quarter 2015 sale of our Slingo and social casino portion of our games business.

In the second quarter of 2014, an acquisition of a business related to our RealPlayer Group resulted in goodwill of \$0.5 million being recorded.

No impairments of goodwill were recorded in 2015, 2014, or 2013.

## Note 9. Accrued and Other Current Liabilities

Accrued and other current liabilities (in thousands):

	December 31, 2015	December 31, 2014
Royalties and other fulfillment costs	\$3,094	\$4,868
Employee compensation, commissions and benefits	5,958	7,711
Sales, VAT and other taxes payable	2,976	5,896
Other	5,292	6,811
Total accrued and other current liabilities	\$17,320	\$25,286

## Note 10. Restructuring Charges

Restructuring and other charges in 2015, 2014 and 2013 consist of costs associated with the ongoing reorganization of our business operations and our ongoing expense re-alignment efforts. The expense amounts in all three years primarily relate to severance costs due to workforce reductions and are classified as Employee Separation Costs in the table below.

We also incurred restructuring charges during 2013 related to the relocation of our Seattle headquarters totaling \$1.8 million, which is classified as Asset Related and Other Costs in the table below. For details on other costs associated with the termination of our Seattle headquarters lease see Note 11. Lease Exit and Related Charges.

Details of restructuring charges for the years ended December 31, 2015, 2014, and 2013 (excluding non-cash charges) are shown in the table below (in thousands):

	By Type of Cost		Total
	Employee Separation Costs	Asset Related and Other Costs	
Costs incurred and charged to expense for the year ended December 31, 2015	\$5,279	\$—	\$5,279
Costs incurred and charged to expense for the year ended December 31, 2014	\$4,992	\$—	\$4,992
Costs incurred and charged to expense for the year ended December 31, 2013	\$3,961	\$1,804	\$5,765

Changes to the accrued restructuring liability (which is included in Accrued and other current liabilities) for 2015, 2014 and 2013, (in thousands):

	By Type of Cost		Total	
	Employee Separation Costs	Contract Assignment Costs		
Accrued liability as of December 31, 2012	\$731	\$1,700	\$2,431	
Costs incurred and charged to expense for the year ended December 31, 2013, excluding non-cash charges	3,961	—	3,961	
Cash payments	(3,936)	)(1,700	)(5,636	)
Accrued liability as of December 31, 2013	756	—	756	
Costs incurred and charged to expense for the year ended December 31, 2014	4,992	—	4,992	
Cash payments	(5,299)	)—	(5,299	)
Accrued liability as of December 31, 2014	449	—	449	
Costs incurred and charged to expense for the period to date in 2015	5,279	—	5,279	
Cash payments	(4,324)	)—	(4,324	)
Accrued liability as of December 31, 2015	\$1,404	\$—	\$1,404	

Note 11. Lease Exit and Related Charges

As a result of the reduction in use of RealNetworks' office space, primarily in our corporate headquarters in Seattle, Washington, and certain other locations, losses have been recognized representing rent and contractual operating expenses over the remaining life of the leases, and related write-downs of leasehold improvements to their estimated fair value.

In the quarter ended September 30, 2015, we recorded \$2.1 million of losses relating to an approximate 43% reduction of office space at our leased corporate headquarters in Seattle, Washington. In 2013, we entered into this lease and early terminated the lease on our previous corporate headquarters, as described in more detail in our 2014 10-K. We continue to regularly evaluate the market for office space. If the market for such space changes further in future periods, we may have to revise our estimates which may result in future adjustments to expense for excess office facilities.

Changes to the accrued loss on excess office facilities (in thousands):

	Years Ended December 31,			
	2015	2014	2013	
Accrued loss, beginning of year	\$234	\$254	\$4,213	
Additions and adjustments to the lease loss accrual, including sublease income estimate revision, and related asset write-downs	2,981	668	1,421	
Less amounts paid, net of sublease income	(620)	)(688	)(5,380	)
Accrued loss, end of year	2,595	234	254	
Less current portion (included in Accrued and other current liabilities)	(822)	)(234	)(254	)
Accrued loss, non-current portion (included in Other long term liabilities)	\$1,773	\$—	\$—	

Note 12. Shareholders' Equity

Accumulated Other Comprehensive Income (Loss)

Changes in components of accumulated other comprehensive income (in thousands):





	Years Ended December 31,		
	2015	2014	2013
<b>Investments</b>			
Accumulated other comprehensive income (loss), beginning of period	\$2,252	\$6,397	\$26,685
Unrealized gains (losses), net of tax effects of \$0, \$0, and \$(54)	(562	) (1,774	) 2,121
Reclassification adjustments for losses (gains) included in other income (expense), net of tax effects of \$0, \$4, and \$(800)	(393	) (2,371	) (22,409
Net current period other comprehensive income	(955	) (4,145	) (20,288
Accumulated other comprehensive income (loss) balance, end of period	\$1,297	\$2,252	\$6,397
<b>Foreign currency translation</b>			
Accumulated other comprehensive income (loss), beginning of period	\$(57,504	) \$(54,092	) \$(53,225
Translation adjustments	(3,009	) (3,364	) (296
Reclassification adjustments for losses (gains) included in other income (expense)	(264	) (48	) (571
Net current period other comprehensive income	(3,273	) (3,412	) (867
Accumulated other comprehensive loss balance, end of period	\$(60,777	) \$(57,504	) \$(54,092
Total accumulated other comprehensive income (loss), end of period	\$(59,480	) \$(55,252	) \$(47,695

**Preferred Stock.** Each share of Series A preferred stock entitles the holder to one thousand votes and dividends equal to one thousand times the aggregate per share amount of dividends declared on the common stock. There are no shares of Series A preferred stock outstanding.

Undesignated preferred stock will have rights and preferences that are determinable by the Board of Directors if and when determination of a new series of preferred stock has been established.

#### Note 13. Employee Stock and Benefit Plans

**Equity Compensation Plans.** Under our equity incentive plans we may grant various types of equity awards to employees and Directors. We have granted time-vest and performance-vest stock options and time-vest and performance-vest restricted stock. Generally, options vest based on continuous employment, over a four-year period. The options generally expire seven years from the date of grant and are exercisable at the market value of the common stock at the grant date. Time-vest restricted stock awards generally vest based on continuous employment over a two or four-year period. Performance-based awards vest if the specified performance targets are met and the grantee remains employed over the required period. The performance targets for these awards are generally based on the achievement of company-specific financial results. For these performance-based awards, expense is recognized when it is probable the performance goal will be achieved. We have also issued market-based performance stock options to certain employees. These awards vest if the market condition is met and the grantee remains employed over the requisite service period.

We issue new shares of common stock upon exercise of stock options and the vesting of restricted stock. As of December 31, 2015 there were 8.2 million shares of common stock authorized for future equity awards. Each restricted stock unit granted reduces and each restricted stock unit forfeited or canceled increases the shares available for future grant by a factor of 1.6 shares. Each stock option granted reduces and each stock option forfeited or canceled increases the shares available for future grant by a factor of one share. We also have an employee stock purchase plan, under which 0.4 million shares of common stock are authorized for future issuance as of December 31, 2015.

Stock-based compensation expense recognized in our consolidated statements of operations includes amounts related to stock options, restricted stock, and employee stock purchase plans and was as follows (in thousands):

50

---

	Years Ended December 31,		
	2015	2014	2013
Total stock-based compensation expense	\$4,698	\$5,204	\$7,468

The total stock-based compensation amounts disclosed above are recorded in their respective line items within operating expenses in the consolidated statement of operations. No stock-based compensation was capitalized as part of the cost of an asset as of December 31, 2015, 2014, or 2013. As of December 31, 2015, we had \$9.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock awards. The unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately two years.

As discussed in Note 1. Description of Business and Summary of Significant Accounting Policies, the valuation models for stock option awards require various highly judgmental assumptions. The assumption for the expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, including the contractual terms, vesting schedules, and expectations of future employee behavior. Expected stock price volatility is based on historical volatility of our common stock for the related expected term. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with a term equivalent to the expected term of the stock options. The dividend yield is estimated at zero because we do not currently anticipate paying dividends in the foreseeable future.

The fair value of options granted used the following weighted average assumptions:

	Years ended December 31,			
	2015	2014	2013	
Expected dividend yield	—	% —	% —	%
Risk-free interest rate	1.47	% 1.40	% 0.86	%
Expected term (years)	4.8	4.5	4.3	
Volatility	38	% 41	% 48	%

Restricted stock unit and award activity was as follows (shares are in thousands):

	Shares	Weighted Average Grant Date Fair Value Per Share	Total Grant Date Fair Value of Vested Awards (000's)
Nonvested shares, December 31, 2012	1,249	\$8.52	
Granted	232	7.18	
Vested	(581)	)9.13	\$4,438
Forfeited/Canceled	(410)	)7.74	
Nonvested shares, December 31, 2013	490	\$7.80	
Granted	159	7.60	
Vested	(193)	)8.35	\$1,608
Forfeited/Canceled	(56)	)7.73	
Nonvested shares, December 31, 2014	400	\$7.47	
Granted	296	5.44	
Vested	(109)	)7.01	\$763
Forfeited/Canceled	(263)	)7.27	
Nonvested shares, December 31, 2015	324	\$5.94	

At December 31, 2015 the aggregate intrinsic value of restricted stock awards was \$1.4 million and the weighted average remaining contractual term was approximately 1 year.

Stock option activity (shares are in thousands):

	Options Outstanding		Weighted Average Grant Date Fair Value
	Number of Shares	Weighted Average Exercise Price	
Outstanding, December 31, 2012	4,534	\$ 14.07	
Options granted at common stock price	3,578	7.56	\$ 2.93
Options exercised	(24	) 5.56	
Options cancelled	(1,463	) 15.76	
Outstanding, December 31, 2013	6,625	\$ 10.21	
Options granted at common stock price	2,036	7.44	\$ 2.51
Options exercised	(44	) 7.26	
Options cancelled	(1,893	) 14.47	
Outstanding, December 31, 2014	6,724	\$ 8.19	
Options granted at common stock price	907	5.31	\$ 1.70
Options exercised	(14	) 1.92	
Options cancelled	(2,100	) 8.59	
Outstanding, December 31, 2015	5,517	\$ 7.58	
Exercisable, December 31, 2015	2,894	\$ 8.26	
Vested and expected to vest, December 31, 2015	5,416	\$ 7.61	

In 2015 and 2014 we granted 200,000 and 400,000 market-based stock options, which are included in the stock option tables above.

As of December 31, 2015, the weighted average remaining contractual life of the options was as follows: outstanding options 4.8 years; exercisable options 4.0 years; and vested and expected to vest options 4.7 years.

As of December 31, 2015, the aggregate intrinsic value of the options was as follows: outstanding options \$0.1 million; exercisable options had a value considered insignificant; and vested and expected to vest options \$0.1 million. The aggregate intrinsic value of stock options exercised in 2015 and 2014 was insignificant. The aggregate intrinsic value of stock options exercised in 2013 was \$0.1 million.

**Employee Stock Purchase Plan.** Our Employee Stock Purchase Plan (ESPP) allows an eligible employee to purchase shares of our common stock at a price equal to 85 percent of the fair market value of the common stock at the end of the semi-annual offering periods, subject to certain limitations. Under the ESPP, 94,400 78,500 and 71,600 shares were purchased during the years ended December 31, 2015, 2014 and 2013, respectively.

**Retirement Savings Plan.** We have a salary deferral plan (401(k) Plan) that covers substantially all employees. Eligible employees may contribute a portion of their eligible compensation to the plan up to limits stated in the plan documents, not to exceed the dollar amounts set by applicable laws. During the years ended December 31, 2015, 2014, and 2013, we matched 50% of the first three percent of participating employees' contributions, and contributed \$0.6 million, \$0.7 million, and \$0.8 million, respectively, in matching contributions. We can terminate the matching contributions at our discretion. We have no other post-employment or post-retirement benefit plans.

#### Note 14. Income Taxes

Components of income (loss) before income taxes (in thousands):

	Years ended December 31,		
	2015	2014	2013
United States operations	\$ (76,450	) \$ (67,186	) \$ (50,032
Foreign operations	(6,231	) (3,349	) (4,055
Income (loss) before income taxes	\$ (82,681	) \$ (70,535	) \$ (54,087

Components of income tax expense (benefit) (in thousands):

	Years ended December 31,		
	2015	2014	2013
Current:			
United States federal	\$176	\$547	\$2,460
State and local	(44	) 69	61
Foreign	592	901	1,706
Total current	724	1,517	4,227
Deferred:			
United States federal	(1,636	) 21	(1,890
State and local	1	(40	) 51
Foreign	77	(218	) 2,515
Total deferred	(1,558	) (237	) 676
Total income tax expense (benefit)	\$(834	) \$1,280	\$4,903

Income tax expense differs from “expected” income tax expense (computed by applying the U.S. federal income tax rate of 35%) due to the following (in thousands):

	Years ended December 31,		
	2015	2014	2013
United States federal tax expense (benefit) at statutory rate	\$(28,938	) \$(24,687	) \$(18,930
State taxes, net of United States federal tax expense (benefit)	(1,240	) (1,083	) (841
Change in valuation allowance	27,821	27,759	25,046
Non-deductible stock compensation	218	270	415
Impact of non-U.S. jurisdictional tax rate difference	648	529	487
Research and development tax credit	(243	) (325	) (1,632
Increase (reversal) of unrecognized tax benefits	(1,269	) (901	) 671
Non-U.S. withholding tax	141	393	1,805
Other	2,028	(675	) (2,118
Total income tax expense (benefit)	\$(834	) \$1,280	\$4,903

Net deferred tax assets are comprised of the following (in thousands):

	December 31,	
	2015	2014
Deferred tax assets:		
United States federal net operating loss carryforwards	\$84,426	\$66,547
Deferred expenses	1,591	2,552
Research and development tax credit carryforwards	24,442	22,979
Alternative minimum tax credit carryforward	3,626	3,626
Net unrealized loss on investments	97	97
Accrued loss on excess office facilities	959	—
Stock-based compensation	11,441	11,398
State net operating loss carryforwards	10,079	8,400
Foreign net operating loss carryforwards	30,657	34,210
Deferred revenue	82	401
Equipment, software, and leasehold improvements	4,263	3,252
Intangibles	12	19
Other	5,150	4,332
Gross deferred tax assets	176,825	157,813
Less valuation allowance	173,872	149,474
Gross deferred tax assets, net of valuation allowance	\$2,953	\$8,339
Deferred tax liabilities:		
Other intangible assets	\$(404)	\$(3,035)
Net unrealized gains and basis differences on investments	(78)	(4,226)
Other	(218)	(397)
Prepaid expenses	(1,384)	(1,360)
Gross deferred tax liabilities	(2,084)	(9,018)
Net deferred tax assets (liabilities)	\$869	\$(679)

Income tax receivables were \$0.1 million and \$0.1 million at December 31, 2015 and 2014, respectively.

In 2015, we continued to record a valuation allowance on the deferred tax assets that we believe are not more likely than not to be realized. The net change in valuation allowance was a \$24.4 million increase and a \$20.6 million increase during the years ended December 31, 2015 and 2014, respectively.

We maintain a valuation allowance of \$173.9 million for our deferred tax assets due to uncertainty regarding their realization as of December 31, 2015. The net increase in the valuation allowance since December 31, 2014 of \$24.4 million was the result of an increase in current year deferred tax assets for which the Company maintains a valuation allowance.

RealNetworks' U.S. federal net operating loss carryforwards totaled \$241.2 million and \$190.1 million at December 31, 2015 and 2014, respectively. The increase is mainly due to the current year U.S. taxable loss. The remaining net operating loss carryforwards as of December 31, 2015 are from prior U.S. taxable losses and from acquired subsidiaries that are limited under Internal Revenue Code Section 382. These net operating loss carryforwards expire between 2024 and 2035.

RealNetworks' alternative minimum tax credit carryforward remained at \$3.6 million from December 31, 2014 to December 31, 2015. The alternative minimum tax credit can be carried forward indefinitely.

RealNetworks' U.S. federal research and development tax credit carryforward totaled \$24.4 million and \$23.0 million at December 31, 2015 and 2014, respectively. The research and development credit carryforwards expire between 2020 and 2035.

As of December 31, 2015 and 2014, we had \$0.3 million and \$3.5 million of unrecognized tax benefits, respectively. The decrease in unrecognized tax benefits is the result of the defense of our positions, and ultimate settlement and closure of a United States federal tax examination. As of December 31, 2015, there are no unrecognized tax benefits remaining that would affect our effective tax rate if recognized, as the offset would increase

the valuation allowance. We do not anticipate that the total amount of unrecognized tax benefits will significantly change within the next twelve months.

We recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of December 31, 2015, and 2014 we have no accrued interest or penalties related to uncertain tax positions.

Reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits (in thousands):

54

---

	Years ended December 31,		
	2015	2014	2013
Balance, beginning of year	\$3,541	\$4,505	\$3,978
Decreases related to prior year tax positions	(33	) (196	) (125
Settlements with taxing authorities	(3,285	) —	—
Increases related to current year tax positions	97	130	652
Expiration of the statute of limitations	—	(898	) —
Balance, end of year	\$320	\$3,541	\$4,505

Note 15. Earnings (Loss) Per Share

Basic and diluted net income (loss) per share (EPS) (in thousands, except per share data):

	Years ended December 31,		
	2015	2014	2013
Net income (loss)	\$(81,847	) \$(71,815	) \$(58,990
Weighted average common shares outstanding used to compute basic EPS	36,165	35,947	35,553
Dilutive effect of stock based awards	—	—	—
Weighted average common shares outstanding used to compute diluted EPS	36,165	35,947	35,553
Basic EPS	\$(2.26	) \$(2.00	) \$(1.66
Diluted EPS	\$(2.26	) \$(2.00	) \$(1.66

Approximately 5.7 million, 6.3 million, and 4.6 million shares of potentially issuable shares from stock awards were excluded from the calculation of diluted EPS for the years ended December 31, 2015, 2014, and 2013, respectively, because of their antidilutive effect.

Note 16. Commitments and Contingencies

Commitments. We have commitments for future payments related to office facilities leases. We lease office facilities under various operating leases expiring through 2024. Future minimum payments as of December 31, 2015 are as follows (in thousands):

	Office Leases
2016	\$6,550
2017	5,046
2018	3,648
2019	3,685
2020	3,618
Thereafter	13,712
Total minimum payments	\$36,259

Of the total office lease future minimum payments, \$2.6 million is recorded in accrued lease exit and related charges at December 31, 2015.

Rent expense during the years ended December 31, 2015, 2014, and 2013, was \$5.8 million, \$6.8 million, and \$8.3 million, respectively. These amounts are net of sublease income of \$0.2 million, \$0.2 million and \$0.8 million in each of the years ended December 31, 2015, 2014 and 2013.

Litigation. In October 2013, we executed settlement agreements relating to certain outstanding litigation matters; specifically, the matters brought against us by VoiceAge Corporation and Callertone Innovations, Inc. which are more fully





described in our 2013 Annual Report on Form 10-K. During the fourth quarter of 2013, we paid an aggregate of \$11.5 million, representing our total obligation under these settlements.

We could in the future become subject to legal proceedings, governmental investigations and claims in the ordinary course of business, including employment claims, contract-related claims, and claims of alleged infringement of third-party patents, trademarks and other intellectual property rights. Such claims, even if not meritorious, could force us to expend significant financial and managerial resources. In addition, given the broad distribution of some of our consumer products, any individual claim related to those products could give rise to liabilities that may be material to us. In the event of a determination adverse to us, we may incur substantial monetary liability, and/or be required to change our business practices. Either of these could have a material adverse effect on our consolidated financial statements.

**Note 17. Guarantees**

In the ordinary course of business, RealNetworks is subject to potential obligations for standard warranty and indemnification provisions that are contained within many of our customer license and service agreements. Our warranty provisions are consistent with those prevalent in our industry, and we do not have a history of incurring losses on warranties; therefore, we do not maintain accruals for warranty-related obligations. With regard to indemnification provisions, nearly all of our carrier contracts obligate us to indemnify our carrier customers for certain liabilities that may be incurred by them. We have received in the past, and may receive in the future, claims for indemnification from some of our carrier customers.

In relation to certain patents and other technology assets we sold to Intel in the second quarter of 2012, we have specific obligations to indemnify Intel for breaches of the representations and warranties that we made and covenants that we agreed to in the asset purchase agreement for certain potential future intellectual property infringement claims brought by third parties against Intel. The amount of any potential liabilities related to our indemnification obligations to Intel will not be determined until a claim has been made, but we are obligated to indemnify Intel up to the amount of the gross purchase price that we received in the sale.

**Note 18. Segment Information**

We have three reportable segments: (1) RealPlayer Group, which includes our new RealTimes product, our RealPlayer media player software, intellectual property licensing, and our SuperPass service; (2) Mobile Entertainment, which includes our SaaS services, our LISTEN product and to a lesser degree, sales of technology licenses of our software products such as Helix, in which we ceased investing during the fourth quarter of 2014; and (3) Games, which includes all our games-related businesses, including 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.

We allocate certain corporate expenses which are directly attributable to supporting the business to our reportable segments. These corporate expenses include but are not limited to a portion of finance, legal, human resources and headquarters facilities. Remaining expenses, which are not directly attributable to supporting the business, are reported as corporate items. All restructuring, lease exit and related charges are reported as corporate items. Also reported as a corporate item was the 2014 extinguishment of the liability associated with our historical musical business, and the 2013 loss on litigation settlements.

RealNetworks reports the three reportable segments based on factors such as how we manage our operations and how our Chief Operating Decision Maker reviews results. Our Chief Operating Decision Maker is considered to be the CEO Staff (CEOS), which includes the Chief Executive Officer, Chief Financial Officer, our Presidents and General Counsel. The CEOS reviews financial information presented on both a consolidated basis and on a business segment basis. The accounting policies used to derive segment results are the same as those described in Note 1. Description of Business and Summary of Significant Accounting Policies.

Segment results for the years ended December 31, 2015, 2014 and 2013 were as follows (in thousands):

RealPlayer Group

	2015	2014	2013
Revenue	\$29,141	\$39,201	\$75,206
Cost of revenue	16,171	14,508	16,220
Gross profit	12,970	24,693	58,986
Operating expenses	47,149	55,742	60,484
Operating income (loss)	\$(34,179 )	\$(31,049 )	\$(1,498 )

Mobile Entertainment

	2015	2014	2013
Revenue	\$65,407	\$79,901	\$81,181
Cost of revenue	44,212	50,399	47,608
Gross profit	21,195	29,502	33,573
Operating expenses	20,256	33,325	35,839
Operating income (loss)	\$939	\$(3,823 )	\$(2,266 )

Games

	2015	2014	2013
Revenue	\$30,748	\$37,110	\$49,809
Cost of revenue	9,291	11,074	13,359
Gross profit	21,457	26,036	36,450
Operating expenses	29,086	37,170	47,177
Operating income (loss)	\$(7,629 )	\$(11,134 )	\$(10,727 )

Corporate

	2015	2014	2013
Cost of revenue	\$623	\$400	\$1,904
Extinguishment of liability	—	(10,580 )	—
Operating expenses	27,695	33,327	54,413
Operating income (loss)	\$(28,318 )	\$(23,147 )	\$(56,317 )

Our customers consist primarily of consumers and corporations located in the U.S., Europe, Republic of Korea and various foreign countries (Rest of the World). Revenue by geographic region (in thousands):

	Years ended December 31,		
	2015	2014	2013
United States	\$46,893	\$61,660	\$90,250
Europe	15,166	26,575	38,155
Republic of Korea	37,832	39,852	46,601
Rest of the World	25,405	28,125	31,190
Total	\$125,296	\$156,212	\$206,196

Long-lived assets (consists of equipment, software, leasehold improvements, other intangible assets, and goodwill) by geographic region (in thousands):

	December 31,		
	2015	2014	2013
United States	\$16,821	\$33,421	\$40,347
Europe	4,898	6,696	8,280
Republic of Korea	282	547	936
Rest of the World	2,015	3,048	4,078
Total long-lived assets	\$24,016	\$43,712	\$53,641

#### Note 19. Related Party Transactions

Transactions with Rhapsody. See Note 4. Rhapsody Joint Venture for details on the 2010 restructuring transaction involving Rhapsody. Subsequent to the restructuring transaction, we were obligated to provide Rhapsody with certain support services. These support services, which included information technology and limited operational support provided directly to Rhapsody, were completed in 2013. RealNetworks has no further obligations or liabilities pursuant to the support services agreement. During the year ended December 31, 2013 we charged Rhapsody \$0.5 million for the support services.

In 2015, Rhapsody issued warrants to RealNetworks to purchase Rhapsody common shares. See Note 5. Fair Value Measurements for details on these warrants.

#### Note 20. Quarterly Information (Unaudited)

The following table summarizes the unaudited statement of operations for each quarter of 2015 and 2014 (in thousands, except per share data):

	Total	Dec. 31	Sept. 30	June 30	Mar. 31 (2)
2015					
Net revenue	\$125,296	\$29,922	\$30,823	\$33,954	\$30,597
Gross profit	54,999	14,094	12,733	14,122	14,050
Operating (loss) income	(69,187)	(7,506)	(21,962)	(20,707)	(19,012)
Net income (loss)	(81,847)	(8,413)	(21,184)	(27,781)	(24,469)
Basic net income (loss) per share (1)	(2.26)	(0.23)	(0.59)	(0.77)	(0.68)
Diluted net income (loss) per share (1)	(2.26)	(0.23)	(0.59)	(0.77)	(0.68)
2014					
Net revenue	\$156,212	\$35,506	\$34,157	\$40,825	\$45,724
Gross profit	90,411	17,625	15,229	20,039	37,518
Operating (loss) income	(69,153)	(20,682)	(20,763)	(18,832)	(8,876)
Net income (loss)	(71,815)	(20,838)	(22,178)	(21,029)	(7,770)
Basic net income (loss) per share (1)	(2.00)	(0.58)	(0.62)	(0.59)	(0.22)
Diluted net income (loss) per share (1)	(2.00)	(0.58)	(0.62)	(0.59)	(0.22)

(1) The sum of the quarterly net income per share amounts will not necessarily equal net income per share for the year due to the use of weighted average quarterly shares and the effects of rounding.

(2) In the quarter ended March 31, 2014, certain accrued royalty liabilities of \$10.6 million associated with our historical music business, which had originally been recorded based on statutory rates, were extinguished.





REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

RealNetworks, Inc.:

We have audited the accompanying consolidated balance sheets of RealNetworks, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RealNetworks, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), RealNetworks, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP  
Seattle, Washington  
February 29, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

RealNetworks, Inc.:

We have audited RealNetworks, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). RealNetworks, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting (Item 9A). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, RealNetworks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of RealNetworks, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 29, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP  
Seattle, Washington  
February 29, 2016



Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure  
Not applicable.

Item 9A. Controls and Procedures  
Disclosure Controls and Procedures

Our management, with the participation of the principal executive officer and principal financial officer, has evaluated the effectiveness of our “disclosure controls and procedures” (as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that we file or submit under the Exchange Act (1) is recorded, processed, summarized, and reported within the time period specified in the Securities and Exchange Commission rules and forms and (2) is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, our management concluded that, as of December 31, 2015, RealNetworks maintained effective internal control over financial reporting.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2015. This attestation is included within Item 8.

Changes in Internal Control over Financial Reporting

Our management, with the participation of the principal executive officer and principal financial officer, has evaluated the changes to our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2015 as required by paragraph (d) of Rules 13a-15 and 15d-15 of the Exchange Act and has concluded that there were no such changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to the information contained in part in the sections captioned “Proposal 1–Election of Directors,” “Board of Directors,” and “Voting Securities and Principal Holders” of the Proxy Statement relating to RealNetworks’ 2016 Annual Meeting of Shareholders or in an amendment to this 10-K, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2015.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to the information contained in the section captioned “Executive Compensation” of the Proxy Statement relating to RealNetworks’ 2016 Annual Meeting of Shareholders or in an amendment to this 10-K, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2015.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters  
 The information required by this item is incorporated by reference to the information contained in the section captioned "Voting Securities and Principal Holders" of the Proxy Statement relating to RealNetworks' 2016 Annual Meeting of Shareholders or in an amendment to this 10-K, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2015.

Equity Compensation Plans

As of December 31, 2015, we had awards outstanding under five equity compensation plans. These plans include the RealNetworks, Inc. 1995 Stock Option Plan (1995 Plan), the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated (1996 Plan), the RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated (2000 Plan), the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated (2005 Plan), and the RealNetworks, Inc. 2002 Director Stock Option Plan (2002 Plan). In addition, we maintain the RealNetworks, Inc. 2007 Employee Stock Purchase Plan, as amended and restated October 2010 (2007 ESPP). The 1995 Plan, 1996 Plan, 2002 Plan, 2005 Plan and 2007 ESPP have been approved by our shareholders. The 2000 Plan has not been approved by our shareholders. In 2005, our shareholders approved the 2005 Plan and upon this approval of the 2005 Plan, we terminated the 1995 Plan, the 1996 Plan, the 2000 Plan and the 2002 Plan. In 2007, our shareholders approved an amended and restated 2005 Plan, and upon this approval, we terminated the RealNetworks, Inc. Director Compensation Stock Plan. As a result of the termination of these Plans, all new equity awards will be issued under the 2005 Plan. In 2007, our shareholders also approved the 2007 ESPP.

The following table aggregates the data from our plans (in thousands):

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (in 000's)(a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (in 000's)(c)	
Equity compensation plans approved by security holders	5,836	\$ 7.56	8,208	(1)(2)
Equity compensation plans not approved by security holders	5	\$ 29.13	—	
Total	5,841	\$ 7.58	8,208	(3)

(1) On January 1, 2008, the 2007 ESPP became effective. Column (c) above excludes an aggregate of 0.4 million shares of the Company's common stock that are authorized for issuance pursuant to the 2007 ESPP.

Includes shares available for future issuances pursuant to the RealNetworks, Inc. 2007 Director Compensation Stock Plan (2007 Director Plan), a sub-plan that operates and is administered under the 2005 Plan. Under the (2)2007 Director Plan, outside directors may elect to receive all or a portion of his or her quarterly director compensation in shares of the Company's common stock in lieu of cash. Shares issued to directors under the 2007 Director Plan are issued from the shares reserved under the 2005 Plan.

The total securities in column (a) include 5,517 stock options and 324 restricted stock units and awards. The (3)weighted average exercise prices in columns (b) relate to the stock options only; restricted stock units and awards have no exercise price.

Equity Compensation Plans Not Approved By Security Holders. The Board of Directors adopted the 2000 Plan to enable the grant of nonqualified stock options to employees and consultants of RealNetworks and its subsidiaries who are not otherwise officers or directors of RealNetworks. The 2000 Plan has not been approved by RealNetworks' shareholders. The Compensation Committee of the Board of Directors is the administrator of the 2000 Plan, and as such determines all matters relating to options granted under the 2000 Plan. Nonqualified stock options granted pursuant to the 2000 Plan were granted with exercise prices equal to the fair market value of RealNetworks' common stock on the date of grant and typically vest over five years as determined by the Compensation Committee or

pursuant to delegated authority as provided in the 2000 Plan. In June 2005, the 2000 Plan was terminated and the remaining available shares were transferred to the 2005 Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to the information contained in the section captioned “Executive Compensation—Policies and Procedures with Respect to Related Person Transactions” and “Election of Directors—Director Independence” of the Proxy Statement relating to RealNetworks’ 2016 Annual Meeting of Shareholders or in an

amendment to this 10-K, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2015.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the information contained in the section captioned "Proposal 2—Ratification of Appointment of Independent Registered Public Accounting Firm" of the Proxy Statement relating to RealNetworks' 2016 Annual Meeting of Shareholders or in an amendment to this 10-K, to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2015.

PART IV.

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Index to Consolidated Financial Statements

The following consolidated financial statements of RealNetworks, Inc. and subsidiaries are filed as part of this report:

Consolidated Balance Sheets — December 31, 2015 and 2014

Consolidated Statements of Operations and Comprehensive Income (Loss) — Years Ended December 31, 2015, 2014, and 2013

Consolidated Statements of Cash Flows — Years Ended December 31, 2015, 2014, and 2013

Consolidated Statements of Shareholders' Equity — Years Ended December 31, 2015, 2014, and 2013

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firm

(a)(2) Financial Statement Schedules

All financial statement schedules have been omitted since they are either not required, not applicable, or because the information required is included in the consolidated financial statements or the notes thereto.

(a)(3) Index to Exhibits

See Index to Exhibits below.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on February 29, 2016.

REALNETWORKS, INC.

BY: /s/ ROBERT GLASER  
 Robert Glaser  
 Chairman of the Board and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Robert Glaser and Michael Parham, and each of them severally, his or her true and lawful attorneys-in-fact and agents, with full power to act without the other and with full power of substitution and resubstitution, to execute in his or her name and on his or her behalf, individually and in each capacity stated below, any and all amendments and supplements to this Report, and any and all other instruments necessary or incidental in connection herewith, and to file the same with the Commission. Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated below on February 29, 2016.

Signature	Title
/s/ _____ ROBERT GLASER _____ Robert Glaser	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ _____ MARJORIE THOMAS _____ Marjorie Thomas	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
/s/ _____ BRUCE A. JAFFE _____ Bruce A. Jaffe	Director
/s/ _____ MICHAEL T. GALGON _____ Michael T. Galgon	Director
/s/ _____ DAWN G. LEPORE _____ Dawn G. Lepore	Director
/s/ _____ JANICE ROBERTS _____ Janice Roberts	Director
/s/ _____ MICHAEL B. SLADE _____ Michael B. Slade	Director
/s/ _____ DOMINIQUE TREMPONT _____ Dominique Trempont	Director



Edgar Filing: REALNETWORKS INC - Form 10-K

Exhibit Index

Exhibit No.	Exhibit Description	Incorporated by Reference			
		Form	SEC File No.	Exhibit	Filing Date
2.1	Transaction, Contribution and Purchase Agreement dated as of February 9, 2010 among Rhapsody America LLC, RealNetworks, Inc., RealNetworks Digital Music of California, Inc., Viacom International Inc. and DMS Holdco Inc.	8-K	000-23137	2.1	04/06/10
2.2	Asset Purchase Agreement dated as of January 26, 2012, by and between RealNetworks, Inc. and Intel Corporation. Certain schedules and exhibits referenced in the Asset Purchase Agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.	8-K	000-23137	2.1	01/30/12
3.1	Amended and Restated Articles of Incorporation	10-Q	000-23137	3.1	08/11/00
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation	8-K	000-23137	3.1	08/31/11
3.3	Amended and Restated Bylaws effective July 23, 2010	8-K	000-23137	3.1	07/29/10
4.1	Amended and Restated Shareholder Rights Plan dated as of December 2, 2008, by and between RealNetworks, Inc. and Mellon Investor Services LLC including the form of Certificate of Designation, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B and C, respectively	8-K	000-23137	4.1	12/03/08
10.1	† RealNetworks, Inc. 1995 Stock Option Plan	S-8	333-63333	99.1	09/14/98
10.2	† RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated on June 1, 2001	10-Q	000-23137	10.1	08/13/01
10.3	† Amendment No. 1 to the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated on June 1, 2001	8-K	000-23137	10.3	12/21/09
10.4	† RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated on June 1, 2001	10-Q	000-23137	10.2	08/13/01
10.5	† Amendment No. 1 to the RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated on June 1, 2001	8-K	000-23137	10.2	12/21/09
10.6	† RealNetworks, Inc. 2002 Director Stock Option Plan	10-Q	000-23137	10.2	07/25/02
10.7	† Form of Stock Option Agreement under the RealNetworks, Inc. 1996 Stock Option Plan, as amended and restated	10-Q	000-23137	10.1	11/14/02
10.8	† Form of Stock Option Agreement under the RealNetworks, Inc. 2000 Stock Option Plan, as amended and restated	10-Q	000-23137	10.2	11/14/02
10.9	† Forms of Stock Option Agreement under the RealNetworks, Inc. 2002 Director Stock Option Plan	10-Q	000-23137	10.3	11/14/02
10.10	† RealNetworks, Inc. 2007 Employee Stock Purchase Plan as amended and restated effective October 18, 2010	10-K	000-23137	10.10	03/16/11
10.11	† RealNetworks, Inc. 2007 Director Compensation Stock Plan	10-K	000-23137	10.9	02/29/08
10.12	† RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated effective July 24, 2014	10-Q	000-23137	10.1	11/06/14
10.13	† Form of Non-Qualified Stock Option Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive	10-K	000-23137	10.13	03/18/13

Edgar Filing: REALNETWORKS INC - Form 10-K

10.14	†	Plan, as amended and restated Form of Restricted Stock Units Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated	10-K	000-23137	10.14	03/18/13
10.15	†	Form of Performance Restricted Stock Units Terms and Conditions for use under the RealNetworks, Inc. 2005 Stock Incentive Plan, as amended and restated	10-K	000-23137	10.15	03/18/13



Edgar Filing: REALNETWORKS INC - Form 10-K

Exhibit No.	Exhibit Description	Incorporated by Reference			
		Form	SEC File No.	Exhibit	Filing Date
10.16	Office Building Lease dated May 2, 2013 between 1501 First Avenue South Limited Partnership, as landlord, and RealNetworks, Inc., as tenant	10-Q	000-23137	10.2	08/08/13
10.17	† Form of Director and Officer Indemnification Agreement	S-1	333-36553	10.14	09/26/97
10.18	Voting Agreement dated September 25, 1997 by and among RealNetworks, Robert Glaser, Accel IV L.P., Mitchell Kapor and Bruce Jacobsen	S-1	333-36553	10.17	09/26/97
10.19	Agreement dated September 26, 1997 by and between RealNetworks and Robert Glaser	S-1	333-36553	10.18	09/26/97
10.20	† Offer Letter dated July 24, 2014 between RealNetworks, Inc. and Robert Glaser	10-Q	000-23137	10.2	11/06/14
10.21	† Offer Letter dated February 21, 2014 between RealNetworks, Inc. and Atul Bali	10-Q	000-23137	10.1	05/08/14
10.22	† Offer Letter dated May 31, 2014 between RealNetworks, Inc. and Michael Mulica	10-Q	000-23137	10.1	08/07/14
10.23	† Offer Letter dated January 7, 2013 between RealNetworks, Inc. and Max Pellegrini	10-Q	000-23137	10.1	05/08/13
10.24	† Promotion Letter dated August 24, 2012 between RealNetworks, Inc. and Michael Parham	10-Q	000-23137	10.3	08/08/13
10.25	† Offer Letter dated between RealNetworks, Inc. and Marjorie Thomas	10-K	000-23137	10.25	02/25/15
10.26	† Promotion Letter dated May 31, 2011 between RealNetworks, Inc. and Scott Uomoto	10-K	000-23137	10.26	03/18/13
10.27	† Promotion Letter dated April 2, 2012 between RealNetworks, Inc. and Tim Wan	10-K	000-23137	10.27	03/18/13
10.28	† Form of Amended and Restated Change in Control and Severance Agreement for Executive Officers	10-Q	000-23137	10.5	08/09/11
10.29	† Form of MBO Plan Document under the RealNetworks, Inc. 2013 Executive Compensation Program	8-K	000-23137	10.1	03/29/13
10.30	† Form of MBO Plan Document under the RealNetworks, Inc. 2014 Executive Compensation Program	8-K	000-23137	10.1	02/13/14
10.31	† Form of MBO Plan Document under the RealNetworks, Inc. 2015 Executive Compensation Program	8-K	000-23137	10.1	02/24/15
10.32	s Amended and Restated Settlement Agreement dated as of March 10, 2006 between RealNetworks, Inc. and Microsoft Corporation	10-K	000-23137	10.24	03/16/06
10.33	s Transaction, Contribution and Purchase Agreement dated as of August 20, 2007 by and among Rhapsody America LLC, RealNetworks, Inc., RealNetworks Digital Music of California, Inc., Viacom International Inc. and DMS Holdco Inc.	10-Q	000-23137	10.1	11/09/07
10.34	Amended and Restated Stockholder Agreement dated as of November 30, 2011 among Rhapsody International Inc., RealNetworks, Inc., RealNetworks Digital Music of California, Inc., Viacom International Inc., Napster, LLC, Best Buy Co., Inc. and DMS Holdco Inc.	10-K	000-23137	10.43	02/29/12
10.35	s	8-K/A	000-23137	10.1	04/11/12

License Agreement, dated as of January 26, 2012, by and  
between RealNetworks, Inc. and Intel Corporation

- 21.1 \* Subsidiaries of RealNetworks, Inc.
- 23.1 \* Consent of KPMG LLP
- 24.1 \* Power of Attorney (included on signature page)

67

---

Edgar Filing: REALNETWORKS INC - Form 10-K

Exhibit No.	Exhibit Description	Incorporated by Reference		
		Form	SEC File No.	Exhibit Filing Date
31.1	*			
31.2	*			
32.1	**			
32.2	**			
101.INS	*			
101.SCH	*			
101.CAL	*			
101.LAB	*			
101.PRE	*			
101.DEF	*			
†	Indicates management contract or compensatory plan.			
s	Portions of this exhibit are omitted and were filed separately with the Securities and Exchange Commission pursuant to an application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.			
*	Filed herewith.			
**	Furnished herewith.			