



RealNetworks Announces Fourth Quarter And Full Year 2017 Results

February 7, 2018

SEATTLE, Feb. 7, 2018 /PRNewswire/ --

- **Significant progress with four key growth initiatives that are expected to contribute to revenue growth in 2018**
- **Exited low margin business that is now presented as discontinued operations; gross margin from continuing operations of 71% highlights scalability of go-forward business**
- **Reduced 2017 operating expenses by 18% year-over-year and reduced cash resources consumed in operations**
- **Delivered positive net income and sequential increase in cash and short term investments in Q4 2017, benefiting from the gain and final receipt of cash from our 2015 sale of Slingo and social casino business**

RealNetworks, Inc. (Nasdaq: RNWK), a leader in digital media software and services, today announced results for the fourth quarter and full year ended December 31, 2017.

Management Commentary

"2017 was a transformative year for RealNetworks. We advanced four key growth initiatives that are expected to contribute high margin revenue in 2018, while simultaneously improving our cost structure," said Rob Glaser, Chairman and CEO of RealNetworks. "We also exited from our low margin Korean music on demand business, increasing our gross margin to over 70%."

Glaser added, "We have set the stage for meaningful revenue growth in 2018, led by the anticipated contribution from new high margin products. We also expect to achieve adjusted EBITDA profitability during 2018."

Fourth Quarter 2017 Financial Highlights from Continuing Operations

- Revenue was \$18.9 million, up from \$18.6 million in the prior quarter and down from \$20.4 million in the prior year period.
- Operating expenses increased \$1.0 million, or 6%, from the prior quarter and decreased \$1.8 million, or 9%, from the prior year period.
- Net income was \$0.4 million, or \$0.01 per share, compared to a net loss of \$(4.5) million or \$(0.12) per share in the prior quarter and \$(10.2) million, or \$(0.28) per share in the prior year period. In the fourth quarter of 2017, net income included a one-time \$4.5 million gain on the final receipt of cash from the 2015 sale of the Slingo and social casino business.
- Adjusted EBITDA was a loss of \$(3.6) million, compared to a loss of \$(2.6) million in the prior quarter and \$(4.5) million in the prior year period. A reconciliation of GAAP net income (loss) from continuing operations to adjusted EBITDA, a non-GAAP measure, is provided in the financial tables that accompany this release.

Full Year 2017 Financial Highlights from Continuing Operations

- Revenue was \$78.7 million, down from \$81.5 million in the prior year.
- Operating expenses declined by \$16.5 million, or 18%, from the prior year.
- Net loss was \$(17.4) million, or \$(0.47) per share, compared to \$(37.8) million or \$(1.02) per share in the prior year.
- Adjusted EBITDA was a loss of \$(12.0) million, compared to a loss of \$(23.2) million in the prior year. A reconciliation of GAAP net income (loss) from continuing operations to adjusted EBITDA, a non-GAAP measure, is provided in the financial tables that accompany this release.
- At December 31, 2017, the Company had \$60.0 million in unrestricted cash, cash equivalents and short-term investments, compared to \$59.1 million at September 30, 2017 and \$77.1 million at December 31, 2016.

Discontinued Operations

At December 31, 2017, the contract with RealNetworks' music on demand customer in Korea terminated. Operations associated with this contract are now presented as discontinued operations and prior periods have been recast to be comparable.

Revenue attributable to this contract was \$12.2 million and \$46.0 million for the three and twelve months ended December 31, 2017, respectively, with gross profit of \$0.5 million and \$1.4 million, respectively, for the same periods.

Consolidated Q4 & 2017 Financial Summary

| | Three Months Ended | | Twelve Months Ended | |
|--|--------------------|----------------|---------------------|-----------------|
| | December 31, | | December 31, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (in millions) | | | |
| Revenue from Continuing Operations | \$ 18.9 | \$ 20.4 | \$ 78.7 | \$ 81.5 |
| Revenue from Discontinued Operations | 12.2 | 11.1 | 46.0 | 39.0 |
| Revenue including Discontinued Operations | <u>\$ 31.1</u> | <u>\$ 31.5</u> | <u>\$ 124.7</u> | <u>\$ 120.5</u> |
| Gross Profit from Continuing Operations | \$ 13.9 | \$ 13.8 | \$ 55.6 | \$ 53.9 |
| Gross Profit from Discontinued Operations | 0.5 | 0.3 | 1.4 | 1.6 |
| Gross Profit including Discontinued Operations | <u>\$ 14.4</u> | <u>\$ 14.1</u> | <u>\$ 57.0</u> | <u>\$ 55.5</u> |
| Gross Margin from Continuing Operations | 74 % | 68 % | 71 % | 66 % |
| Gross Margin from Discontinued Operations | 4 % | 3 % | 3 % | 4 % |
| Gross Margin including Discontinued Operations | 46 % | 45 % | 46 % | 46 % |

Business Outlook

For the first quarter of 2018, RealNetworks expects to achieve the following results:

- Total revenue is expected to be in the range of \$20 million to \$22 million.
- Adjusted EBITDA loss is expected to be in the range of \$(1.0) million to \$(3.0) million.

Conference Call and Webcast Information

The company will host a conference call today to review results and discuss the company's performance shortly after 4:30 p.m. ET/1:30 p.m. PT. You may join the conference call by calling 1-877-451-6152 or 1-201-389-0879. A telephonic replay of the call will also be available shortly after the completion of the call, until 11:59 pm ET on Wednesday, February 28, 2018, by dialing 1-844-512-2921 (United States) or 1-412-317-6671 (International) and entering the replay pin number: 13675526.

A live webcast will be available on RealNetworks' Investor Relations site under Events at <http://investor.realnworks.com> and will be archived online upon completion of the conference call.

For More Information

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About RealNetworks

RealNetworks creates innovative technology products and services that make it easy to connect with and enjoy digital media. RealNetworks invented the streaming media category and continues to connect consumers with their digital media both directly and through partners, aiming to support every network, device, media type and social network. Find RealNetworks' corporate information at www.realnworks.com.

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About Non-GAAP Financial Measures

To supplement RealNetworks' consolidated financial information presented in accordance with GAAP in this press release, the company also discloses certain non-GAAP financial measures, including adjusted EBITDA and contribution margin by reportable segment, which management believes provide investors with useful information.

In the financial tables of our earnings press release, RealNetworks has included reconciliations of GAAP net income (loss) from continuing operations to adjusted EBITDA and operating income (loss) by reportable segment to contribution margin by reportable segment.

The rationale for management's use of non-GAAP measures is included in the supplementary materials presented with the quarterly earnings materials. Please refer to Exhibit 99.2 ("Information Regarding Non-GAAP Financial Measures") to the company's report on Form 8-K, which is being submitted today to the SEC.

Forward-Looking Statements

This press release contains forward-looking statements that involve risks and uncertainties, including statements relating to RealNetworks' current expectations regarding future revenue and adjusted EBITDA, our future growth, profitability, and market position, our strategic focus and initiatives, agreements with partners, and the growth and future prospects relating to our Rhapsody d/b/a Napster affiliate. All statements contained in this press release that do not relate to matters of historical fact should be considered forward-looking statements. These statements reflect RealNetworks' expectations as of today, and actual results may differ materially from the results predicted. Factors that could cause actual results to differ from the results predicted include: RealNetworks' ability to realize operating efficiencies, growth and other benefits from the implementation of its growth plan, strategic initiatives, and restructuring efforts; the emergence of new entrants and competition in the market for digital media products and services; other competitive risks, including the growth of competing technologies, products and services; the potential outcomes and effects of claims and legal proceedings on RealNetworks' business, prospects, financial condition or results of operations; risks associated with key customer or strategic relationships, business acquisitions and the introduction of new products and services; changes in consumer and advertising spending in response to disruptions in the global financial markets; fluctuations in foreign currencies; and changes in RealNetworks' effective tax rate. More information about potential risk factors that could affect RealNetworks' business and financial results is included in RealNetworks' annual report on Form 10-K for the most recent year ended December 31, its quarterly reports on Form 10-Q and in other reports and documents filed by RealNetworks from time to time with the Securities and Exchange Commission. The preparation of RealNetworks' financial statements and forward-looking financial guidance requires the company to make estimates and assumptions that affect the reported amount of assets and liabilities, and revenues and expenses during the reported period. Actual results may differ materially from these estimates under different assumptions or conditions. The company assumes no obligation to update any forward-looking statements or information, which are in effect as of their respective dates.

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

| | Quarter Ended December 31, | | Twelve Months Ended December 31, | |
|--|---------------------------------------|-------------------|-------------------------------------|--------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands, except per share data) | | | |
| Net revenue | \$ 18,865 | \$ 20,395 | \$ 78,718 | \$ 81,479 |
| Cost of revenue | 4,965 | 6,591 | 23,164 | 27,548 |
| Gross profit | <u>13,900</u> | <u>13,804</u> | <u>55,554</u> | <u>53,931</u> |
| Operating expenses: | | | | |
| Research and development | 7,625 | 6,738 | 29,710 | 29,923 |
| Sales and marketing | 5,419 | 7,451 | 22,953 | 31,608 |
| General and administrative | 5,358 | 6,035 | 20,996 | 27,415 |
| Restructuring and other charges | 255 | 192 | 2,526 | 1,489 |
| Lease exit and related charges | — | 48 | — | 2,239 |
| Total operating expenses | <u>18,657</u> | <u>20,464</u> | <u>76,185</u> | <u>92,674</u> |
| Operating income (loss) | <u>(4,757)</u> | <u>(6,660)</u> | <u>(20,631)</u> | <u>(38,743)</u> |
| Other income (expenses): | | | | |
| Interest income, net | 83 | 133 | 436 | 449 |
| Gain (loss) on investments, net | 4,500 | 2,495 | 4,500 | 8,473 |
| Equity in net loss of Rhapsody | (2,894) | (5,904) | (3,991) | (6,533) |
| Other income (expense), net | (217) | (128) | (506) | (643) |
| Total other income (expense), net | <u>1,472</u> | <u>(3,404)</u> | <u>439</u> | <u>1,746</u> |
| Income (loss) from continuing operations before income taxes | (3,285) | (10,064) | (20,192) | (36,997) |
| Income tax expense (benefit) | <u>(3,732)</u> | <u>139</u> | <u>(2,778)</u> | <u>776</u> |
| Net income (loss) from continuing operations | 447 | (10,203) | (17,414) | (37,773) |
| Net income (loss) from discontinued operations, net of tax | 392 | 227 | 1,109 | 1,223 |
| Net income (loss) | <u>\$ 839</u> | <u>\$ (9,976)</u> | <u>\$ (16,305)</u> | <u>\$ (36,550)</u> |
| Net income (loss) per share - Basic: | | | | |
| Continuing operations | \$ 0.01 | \$ (0.28) | \$ (0.47) | \$ (1.02) |
| Discontinued operations | 0.01 | 0.01 | 0.03 | 0.03 |
| Net income (loss) per share - Basic | <u>\$ 0.02</u> | <u>\$ (0.27)</u> | <u>\$ (0.44)</u> | <u>\$ (0.99)</u> |
| Net income (loss) per share - Diluted: | | | | |
| Continuing operations | \$ 0.01 | \$ (0.28) | \$ (0.47) | \$ (1.02) |
| Discontinued operations | 0.01 | 0.01 | 0.03 | 0.03 |
| Net income (loss) per share - Diluted | <u>\$ 0.02</u> | <u>\$ (0.27)</u> | <u>\$ (0.44)</u> | <u>\$ (0.99)</u> |
| Shares used to compute basic net income (loss) per share | 37,315 | 37,042 | 37,163 | 36,781 |
| Shares used to compute diluted net income (loss) per share | 37,383 | 37,042 | 37,163 | 36,781 |

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

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| | (in thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 51,196 | \$ 33,721 |
| Short-term investments | 8,779 | 43,331 |
| Trade accounts receivable, net | 12,689 | 7,956 |
| Deferred costs, current portion | 426 | 760 |
| Prepaid expenses and other current assets | 3,715 | 4,910 |
| Current assets of discontinued operations | <u>17,456</u> | <u>14,206</u> |
| Total current assets | <u>94,261</u> | <u>104,884</u> |
| Equipment and software | 46,417 | 46,231 |
| Leasehold improvements | <u>3,536</u> | <u>3,317</u> |
| Total equipment, software, and leasehold improvements | 49,953 | 49,548 |
| Less accumulated depreciation and amortization | <u>46,093</u> | <u>44,294</u> |
| Net equipment, software, and leasehold improvements | 3,860 | 5,254 |
| Restricted cash equivalents and investments | 2,400 | 2,700 |
| Other assets | 5,588 | 1,742 |
| Deferred costs, non-current portion | 955 | 1,246 |
| Deferred tax assets, net | 1,047 | 816 |
| Other intangible assets, net | 325 | 938 |
| Goodwill | <u>13,060</u> | <u>12,857</u> |
| Total assets | <u>\$ 121,496</u> | <u>\$ 130,437</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,785 | \$ 4,727 |
| Accrued and other current liabilities | 12,365 | 14,382 |
| Commitment to Rhapsody | 2,750 | 1,500 |
| Deferred revenue, current portion | 3,097 | 3,430 |
| Current liabilities of discontinued operations | <u>17,107</u> | <u>14,541</u> |
| Total current liabilities | 39,104 | 38,580 |
| Deferred revenue, non-current portion | 443 | 240 |

| | | |
|--|-------------------|-------------------|
| Deferred rent | 982 | 748 |
| Deferred tax liabilities, net | 19 | 87 |
| Other long-term liabilities | 1,775 | 2,201 |
| | <u> </u> | <u> </u> |
| Total liabilities | 42,323 | 41,856 |
| | <u> </u> | <u> </u> |
| Shareholders' equity | 79,173 | 88,581 |
| | <u> </u> | <u> </u> |
| Total liabilities and shareholders' equity | \$ 121,496 | \$ 130,437 |

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

| | Twelve Months Ended | |
|--|----------------------------|------------------|
| | December 31, | |
| | 2017 | 2016 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (16,305) | \$ (36,550) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 2,936 | 7,057 |
| Stock-based compensation | 3,675 | 5,424 |
| Equity in net loss of Rhapsody | 3,991 | 6,533 |
| Deferred income taxes, net | (3,871) | 130 |
| Loss (gain) on investments, net | (4,500) | (8,473) |
| Realized translation loss (gain) | — | 272 |
| Fair value of warrants granted in 2015 and 2017, net of subsequent mark to market adjustments in 2017 and 2016 | (216) | 280 |
| Net change in certain operating assets and liabilities | (7,060) | 999 |
| Net cash provided by (used in) operating activities | (21,350) | (24,328) |
| Cash flows from investing activities: | | |
| Purchases of equipment, software, and leasehold improvements | (734) | (2,438) |
| Proceeds from sale of equity and other investments | — | 4,967 |
| Purchases of short-term investments | (13,905) | (75,766) |
| Proceeds from sales and maturities of short-term investments | 48,457 | 84,249 |
| Decrease (increase) in restricted cash equivalents and investments, net | 300 | 190 |
| Acquisitions | — | (150) |
| Advance to Rhapsody | (1,500) | (3,500) |
| Proceeds from the sale of Slingo and social casino business | 4,500 | 4,000 |
| Net cash provided by (used in) investing activities | 37,118 | 11,552 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock (stock options and stock purchase plan) | 239 | 535 |
| Tax payments from shares withheld upon vesting of restricted stock | (356) | (880) |
| Net cash provided by (used in) financing activities | (117) | (345) |
| Effect of exchange rate changes on cash and cash equivalents | 1,824 | (473) |
| Net increase (decrease) in cash and cash equivalents | 17,475 | (13,594) |
| Cash and cash equivalents, beginning of year | 33,721 | 47,315 |
| Cash and cash equivalents, end of year | <u>\$ 51,196</u> | <u>\$ 33,721</u> |

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

| | 2017 | | | | | 2016 | | | | |
|--|-----------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | YTD | Q4 | Q3 | Q2 | Q1 | YTD | Q4 | Q3 | Q2 | Q1 |
| | (in thousands) | | | | | | | | | |
| Net Revenue by Line of Business | | | | | | | | | | |
| Consumer Media (A) | \$ 22,569 | \$ 5,752 | \$ 4,197 | \$ 6,951 | \$ 5,669 | \$ 25,051 | \$ 6,443 | \$ 6,482 | \$ 6,400 | \$ 5,726 |
| Mobile Services (B) | 30,752 | 7,155 | 7,678 | 7,720 | 8,199 | 31,289 | 7,775 | 7,821 | 7,636 | 8,057 |
| Games (C) | 25,397 | 5,958 | 6,682 | 6,934 | 5,823 | 25,139 | 6,177 | 6,886 | 6,037 | 6,039 |
| Total net revenue | <u>\$ 78,718</u> | <u>\$ 18,865</u> | <u>\$ 18,557</u> | <u>\$ 21,605</u> | <u>\$ 19,691</u> | <u>\$ 81,479</u> | <u>\$ 20,395</u> | <u>\$ 21,189</u> | <u>\$ 20,073</u> | <u>\$ 19,822</u> |
| Net Revenue by Product | | | | | | | | | | |
| Consumer Media | | | | | | | | | | |
| - License (D) | \$ 14,953 | \$ 3,945 | \$ 2,334 | \$ 5,002 | \$ 3,672 | \$ 15,406 | \$ 4,252 | \$ 4,136 | \$ 3,914 | \$ 3,104 |
| - Subscriptions (E) | 5,891 | 1,362 | 1,434 | 1,531 | 1,564 | 7,448 | 1,671 | 1,931 | 1,871 | 1,975 |
| - Media Properties (F) | 1,725 | 445 | 429 | 418 | 433 | 2,197 | 520 | 415 | 615 | 647 |
| Mobile Services | | | | | | | | | | |
| - SaaS (G) | 30,338 | 7,042 | 7,555 | 7,639 | 8,102 | 30,306 | 7,668 | 7,279 | 7,547 | 7,812 |
| - Technology License & Other (H) | 414 | 113 | 123 | 81 | 97 | 983 | 107 | 542 | 89 | 245 |
| Games | | | | | | | | | | |
| - License (I) | 13,806 | 3,086 | 3,851 | 4,007 | 2,862 | 12,415 | 3,178 | 3,683 | 2,793 | 2,761 |
| - Subscriptions (J) | 11,024 | 2,707 | 2,708 | 2,781 | 2,828 | 11,894 | 2,836 | 3,005 | 3,024 | 3,029 |
| - Media Properties (K) | 567 | 165 | 123 | 146 | 133 | 830 | 163 | 198 | 220 | 249 |
| Total net revenue | <u>\$ 78,718</u> | <u>\$ 18,865</u> | <u>\$ 18,557</u> | <u>\$ 21,605</u> | <u>\$ 19,691</u> | <u>\$ 81,479</u> | <u>\$ 20,395</u> | <u>\$ 21,189</u> | <u>\$ 20,073</u> | <u>\$ 19,822</u> |

Net Revenue by Geography

| | | | | | | | | | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| United States | \$ 40,833 | \$ 10,120 | \$ 10,084 | \$ 10,889 | \$ 9,740 | \$ 41,505 | \$ 10,125 | \$ 10,642 | \$ 10,355 | \$ 10,383 |
| Rest of world | 37,885 | 8,745 | 8,473 | 10,716 | 9,951 | 39,974 | 10,270 | 10,547 | 9,718 | 9,439 |
| Total net revenue | \$ 78,718 | \$ 18,865 | \$ 18,557 | \$ 21,605 | \$ 19,691 | \$ 81,479 | \$ 20,395 | \$ 21,189 | \$ 20,073 | \$ 19,822 |

Net Revenue by Line of Business

(A) The Consumer Media division primarily includes revenue from RealPlayer and related products, such as the distribution of third-party software products, advertising on RealPlayer websites, sales of RealPlayer Plus software licenses to consumers, sales of intellectual property licenses, and consumer subscriptions such as RealPlayer Plus and SuperPass.

(B) The Mobile Services division primarily includes revenue from SaaS services and sales of professional services provided to mobile carriers.

(C) The Games division primarily includes revenue from sales of mobile games, sales of games licenses, online games subscription services, advertising on games sites and social network sites, and microtransactions from online games.

Net Revenue by Product

(D) Licensing revenue within Consumer Media includes sales of intellectual property licenses and RealPlayer Plus software licenses to consumers.

(E) Subscriptions revenue within Consumer Media includes revenue from subscriptions such as our RealPlayer Plus and SuperPass offerings.

(F) Media Properties revenue within Consumer Media includes distribution of third-party software products and advertising on RealPlayer websites.

(G) SaaS revenue within Mobile Services includes revenue from ringback tones, intercarrier messaging services, and RealTimes.

(H) Technology licensing and other revenue within Mobile Services includes revenue from professional services provided to mobile carriers.

(I) Licensing revenue within Games includes retail games-related revenue and sales of mobile games.

(J) Subscriptions revenue within Games includes revenue from online games subscriptions as well as microtransactions from mobile games.

(K) Media Properties revenue within Games includes advertising on games sites and social network sites.

RealNetworks, Inc. and Subsidiaries
Segment Results of Operations and Reconciliation to non-GAAP Contribution Margin
(Unaudited)

| | 2017 | | 2016 | | |
|--|------------|------------|------------|-------------|-------------|
| | Q4 | Q3 | Q4 | YTD | |
| (in thousands) | | | | | |
| Consumer Media | | | | | |
| Net revenue | \$ 5,752 | \$ 4,197 | \$ 6,443 | \$ 22,569 | \$ 25,051 |
| Cost of revenue | 915 | 981 | 1,589 | 4,460 | 7,074 |
| Gross profit | 4,837 | 3,216 | 4,854 | 18,109 | 17,977 |
| Gross margin | 84 % | 77 % | 75 % | 80 % | 72 % |
| Operating expenses | 3,573 | 3,217 | 4,459 | 14,530 | 18,399 |
| Operating income (loss), a GAAP measure | \$ 1,264 | \$ (1) | \$ 395 | \$ 3,579 | \$ (422) |
| Depreciation and amortization | 42 | 42 | 239 | 410 | 2,212 |
| Contribution margin, a non-GAAP measure | \$ 1,306 | \$ 41 | \$ 634 | \$ 3,989 | \$ 1,790 |
| Mobile Services | | | | | |
| Net revenue | \$ 7,155 | \$ 7,678 | \$ 7,775 | \$ 30,752 | \$ 31,289 |
| Cost of revenue | 2,271 | 2,134 | 2,912 | 10,021 | 12,606 |
| Gross profit | 4,884 | 5,544 | 4,863 | 20,731 | 18,683 |
| Gross margin | 68 % | 72 % | 63 % | 67 % | 60 % |
| Operating expenses | 6,709 | 6,437 | 7,786 | 27,970 | 34,439 |
| Operating income (loss), a GAAP measure | \$ (1,825) | \$ (893) | \$ (2,923) | \$ (7,239) | \$ (15,756) |
| Acquisitions related intangible asset amortization | 89 | 88 | 198 | 574 | 923 |
| Depreciation and amortization | 174 | 180 | 290 | 732 | 1,723 |
| Contribution margin, a non-GAAP measure | \$ (1,562) | \$ (625) | \$ (2,435) | \$ (5,933) | \$ (13,110) |
| Games | | | | | |
| Net revenue | \$ 5,958 | \$ 6,682 | \$ 6,177 | \$ 25,397 | \$ 25,139 |
| Cost of revenue | 1,868 | 2,226 | 2,054 | 8,710 | 7,919 |
| Gross profit | 4,090 | 4,456 | 4,123 | 16,687 | 17,220 |
| Gross margin | 69 % | 67 % | 67 % | 66 % | 68 % |
| Operating expenses | 5,293 | 5,071 | 4,975 | 20,401 | 19,644 |
| Operating income (loss), a GAAP measure | \$ (1,203) | \$ (615) | \$ (852) | \$ (3,714) | \$ (2,424) |
| Acquisitions related intangible asset amortization | 18 | 27 | 27 | 97 | 115 |
| Depreciation and amortization | 163 | 169 | 146 | 630 | 583 |
| Contribution margin, a non-GAAP measure | \$ (1,022) | \$ (419) | \$ (679) | \$ (2,987) | \$ (1,726) |
| Corporate | | | | | |
| Cost of revenue | \$ (89) | \$ 2 | \$ 36 | \$ (27) | \$ (51) |
| Gross profit | 89 | (2) | (36) | 27 | 51 |
| Gross margin | N/A | N/A | N/A | N/A | N/A |
| Operating expenses | 3,082 | 2,948 | 3,244 | 13,284 | 20,192 |
| Operating income (loss), a GAAP measure | \$ (2,993) | \$ (2,950) | \$ (3,280) | \$ (13,257) | \$ (20,141) |
| Other income (expense), net | (217) | (50) | (128) | (506) | (643) |
| Depreciation and amortization | 48 | 139 | 260 | 493 | 1,501 |
| Restructuring and other charges | 255 | 557 | 192 | 2,526 | 1,489 |
| Stock-based compensation | 630 | 748 | 867 | 3,675 | 5,424 |
| Lease exit and related charges | — | — | 48 | — | 2,239 |
| Contribution margin, a non-GAAP measure | \$ (2,277) | \$ (1,556) | \$ (2,041) | \$ (7,069) | \$ (10,131) |

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

| | 2017 | | 2016 | | |
|--|------------|------------|-------------|-------------|-------------|
| | Q4 | Q3 | Q4 | YTD | |
| (in thousands) | | | | | |
| Reconciliation of GAAP Net income (loss) from continuing operations to adjusted EBITDA: | | | | | |
| Net income (loss) from continuing operations | \$ 447 | \$ (4,532) | \$ (10,203) | \$ (17,414) | \$ (37,773) |
| Income tax expense (benefit) | (3,732) | 139 | 139 | (2,778) | 776 |
| Interest income, net | (83) | (116) | (133) | (436) | (449) |
| (Gain) loss on investments, net | (4,500) | — | (2,495) | (4,500) | (8,473) |
| Equity in net loss of Rhapsody | 2,894 | — | 5,904 | 3,991 | 6,533 |
| Acquisitions related intangible asset amortization | 107 | 115 | 225 | 671 | 1,038 |
| Depreciation and amortization | 427 | 530 | 935 | 2,265 | 6,019 |
| Restructuring and other charges | 255 | 557 | 192 | 2,526 | 1,489 |
| Stock-based compensation | 630 | 748 | 867 | 3,675 | 5,424 |
| Lease exit and related charges | — | — | 48 | — | 2,239 |
| Adjusted EBITDA, a non-GAAP measure | \$ (3,555) | \$ (2,559) | \$ (4,521) | \$ (12,000) | \$ (23,177) |

Condensed Consolidated Statements of Operations
(Unaudited) (Recast)

| | 2017 | | | |
|--|---------------------------------------|------------|------------|------------|
| | Q4 | Q3 | Q2 | Q1 |
| | (in thousands, except per share data) | | | |
| Net revenue | \$ 18,865 | \$ 18,557 | \$ 21,605 | \$ 19,691 |
| Cost of revenue | 4,965 | 5,343 | 6,287 | 6,569 |
| Gross profit | 13,900 | 13,214 | 15,318 | 13,122 |
| Operating expenses: | | | | |
| Research and development | 7,625 | 7,152 | 7,584 | 7,349 |
| Sales and marketing | 5,419 | 4,883 | 5,496 | 7,155 |
| General and administrative | 5,358 | 5,081 | 5,254 | 5,303 |
| Restructuring and other charges | 255 | 557 | 150 | 1,564 |
| Total operating expenses | 18,657 | 17,673 | 18,484 | 21,371 |
| Operating income (loss) | (4,757) | (4,459) | (3,166) | (8,249) |
| Other income (expenses): | | | | |
| Interest income, net | 83 | 116 | 109 | 128 |
| Gain (loss) on investments, net | 4,500 | — | — | — |
| Equity in net loss of Rhapsody | (2,894) | — | (349) | (748) |
| Other income (expense), net | (217) | (50) | (13) | (226) |
| Total other income (expense), net | 1,472 | 66 | (253) | (846) |
| Income (loss) from continuing operations before income taxes | (3,285) | (4,393) | (3,419) | (9,095) |
| Income tax expense (benefit) | (3,732) | 139 | 360 | 455 |
| Net income (loss) from continuing operations | 447 | (4,532) | (3,779) | (9,550) |
| Net income (loss) from discontinued operations, net of tax | 392 | 198 | 393 | 126 |
| Net income (loss) | \$ 839 | \$ (4,334) | \$ (3,386) | \$ (9,424) |
| Net income (loss) per share - Basic: | | | | |
| Continuing operations | \$ 0.01 | \$ (0.12) | \$ (0.10) | \$ (0.26) |
| Discontinued operations | 0.01 | — | 0.01 | 0.01 |
| Net income (loss) per share - Basic | \$ 0.02 | \$ (0.12) | \$ (0.09) | \$ (0.25) |
| Net income (loss) per share - Diluted: | | | | |
| Continuing operations | \$ 0.01 | \$ (0.12) | \$ (0.10) | \$ (0.26) |
| Discontinued operations | 0.01 | — | 0.01 | 0.01 |
| Net income (loss) per share - Diluted | \$ 0.02 | \$ (0.12) | \$ (0.09) | \$ (0.25) |
| Shares used to compute basic net income (loss) per share | 37,315 | 37,200 | 37,103 | 37,030 |
| Shares used to compute diluted net income (loss) per share | 37,383 | 37,200 | 37,103 | 37,030 |

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

| | 2016 | | | |
|--|---------------------------------------|------------|------------|-------------|
| | Q4 | Q3 | Q2 | Q1 |
| | (in thousands, except per share data) | | | |
| Net revenue | \$ 20,395 | \$ 21,189 | \$ 20,073 | \$ 19,822 |
| Cost of revenue | 6,591 | 7,235 | 6,651 | 7,071 |
| Gross profit | 13,804 | 13,954 | 13,422 | 12,751 |
| Operating expenses: | | | | |
| Research and development | 6,738 | 6,699 | 7,167 | 9,319 |
| Sales and marketing | 7,451 | 7,183 | 7,749 | 9,225 |
| General and administrative | 6,035 | 7,086 | 6,217 | 8,077 |
| Restructuring and other charges | 192 | 499 | 413 | 385 |
| Lease exit and related charges | 48 | 1,233 | 127 | 831 |
| Total operating expenses | 20,464 | 22,700 | 21,673 | 27,837 |
| Operating income (loss) | (6,660) | (8,746) | (8,251) | (15,086) |
| Other income (expenses): | | | | |
| Interest income, net | 133 | 119 | 80 | 117 |
| Gain (loss) on investments, net | 2,495 | 6,021 | (46) | 3 |
| Equity in net loss of Rhapsody | (5,904) | (233) | (396) | — |
| Other income (expense), net | (128) | (243) | 15 | (287) |
| Total other income (expense), net | (3,404) | 5,664 | (347) | (167) |
| Income (loss) from continuing operations before income taxes | (10,064) | (3,082) | (8,598) | (15,253) |
| Income tax expense (benefit) | 139 | 252 | 228 | 157 |
| Net income (loss) from continuing operations | (10,203) | (3,334) | (8,826) | (15,410) |
| Net income (loss) from discontinued operations, net of tax | 227 | 278 | 479 | 239 |
| Net income (loss) | \$ (9,976) | \$ (3,056) | \$ (8,347) | \$ (15,171) |
| Net income (loss) per share - Basic: | | | | |
| Continuing operations | \$ (0.28) | \$ (0.09) | \$ (0.24) | \$ (0.42) |
| Discontinued operations | 0.01 | 0.01 | 0.01 | — |
| Net income (loss) per share - Basic | \$ (0.27) | \$ (0.08) | \$ (0.23) | \$ (0.42) |
| Net income (loss) per share - Diluted: | | | | |
| Continuing operations | \$ (0.28) | \$ (0.09) | \$ (0.24) | \$ (0.42) |
| Discontinued operations | 0.01 | 0.01 | 0.01 | — |
| Net income (loss) per share - Diluted | \$ (0.27) | \$ (0.08) | \$ (0.23) | \$ (0.42) |
| Shares used to compute basic net income (loss) per share | 37,042 | 36,805 | 36,755 | 36,520 |
| Shares used to compute diluted net income (loss) per share | 37,042 | 36,805 | 36,755 | 36,520 |

RealNetworks, Inc. and Subsidiaries
Segment Results of Operations and Reconciliation to non-GAAP Contribution Margin
(Unaudited)

| | 2017 | | | | | 2016 | | | | |
|-----------------------|----------------|----------|----------|----------|-----------|----------------|----------|----------|----------|-----------|
| | Q1 | Q2 | Q3 | Q4 | YTD | Q1 | Q2 | Q3 | Q4 | YTD |
| | (in thousands) | | | | | (in thousands) | | | | |
| Consumer Media | | | | | | | | | | |
| Net revenue | \$ 5,669 | \$ 6,951 | \$ 4,197 | \$ 5,752 | \$ 22,569 | \$ 5,726 | \$ 6,400 | \$ 6,482 | \$ 6,443 | \$ 25,051 |
| Cost of revenue | 1,405 | 1,159 | 981 | 915 | 4,460 | 2,417 | 1,561 | 1,507 | 1,589 | 7,074 |
| Gross profit | 4,264 | 5,792 | 3,216 | 4,837 | 18,109 | 3,309 | 4,839 | 4,975 | 4,854 | 17,977 |
| Gross margin | 75 % | 83 % | 77 % | 84 % | 80 % | 58 % | 76 % | 77 % | 75 % | 72 % |

| | | | | | | | | | | |
|---|--------|----------|--------|----------|----------|------------|--------|--------|--------|----------|
| Operating expenses | 4,010 | 3,730 | 3,217 | 3,573 | 14,530 | 5,376 | 4,293 | 4,271 | 4,459 | 18,399 |
| Operating income (loss), a GAAP measure | \$ 254 | \$ 2,062 | \$ (1) | \$ 1,264 | \$ 3,579 | \$ (2,067) | \$ 546 | \$ 704 | \$ 395 | \$ (422) |
| Depreciation and amortization | 167 | 159 | 42 | 42 | 410 | 1,303 | 375 | 295 | 239 | 2,212 |
| Contribution margin, a non-GAAP measure | \$ 421 | \$ 2,221 | \$ 41 | \$ 1,306 | \$ 3,989 | \$ (764) | \$ 921 | \$ 999 | \$ 634 | \$ 1,790 |

Mobile Services

| | | | | | | | | | | |
|--|------------|------------|----------|------------|------------|------------|------------|------------|------------|-------------|
| Net revenue | \$ 8,199 | \$ 7,720 | \$ 7,678 | \$ 7,155 | \$ 30,752 | \$ 8,057 | \$ 7,636 | \$ 7,821 | \$ 7,775 | \$ 31,289 |
| Cost of revenue | 3,190 | 2,426 | 2,134 | 2,271 | 10,021 | 2,816 | 3,357 | 3,521 | 2,912 | 12,606 |
| Gross profit | 5,009 | 5,294 | 5,544 | 4,884 | 20,731 | 5,241 | 4,279 | 4,300 | 4,863 | 18,683 |
| Gross margin | 61 % | 69 % | 72 % | 68 % | 67 % | 65 % | 56 % | 55 % | 63 % | 60 % |
| Operating expenses | 8,119 | 6,705 | 6,437 | 6,709 | 27,970 | 9,794 | 8,784 | 8,075 | 7,786 | 34,439 |
| Operating income (loss), a GAAP measure | \$ (3,110) | \$ (1,411) | \$ (893) | \$ (1,825) | \$ (7,239) | \$ (4,553) | \$ (4,505) | \$ (3,775) | \$ (2,923) | \$ (15,756) |
| Acquisitions related intangible asset amortization | 196 | 201 | 88 | 89 | 574 | 308 | 209 | 208 | 198 | 923 |
| Depreciation and amortization | 203 | 175 | 180 | 174 | 732 | 422 | 608 | 403 | 290 | 1,723 |
| Contribution margin, a non-GAAP measure | \$ (2,711) | \$ (1,035) | \$ (625) | \$ (1,562) | \$ (5,933) | \$ (3,823) | \$ (3,688) | \$ (3,164) | \$ (2,435) | \$ (13,110) |

Games

| | | | | | | | | | | |
|--|------------|----------|----------|------------|------------|------------|----------|----------|----------|------------|
| Net revenue | \$ 5,823 | \$ 6,934 | \$ 6,682 | \$ 5,958 | \$ 25,397 | \$ 6,039 | \$ 6,037 | \$ 6,886 | \$ 6,177 | \$ 25,139 |
| Cost of revenue | 1,937 | 2,679 | 2,226 | 1,868 | 8,710 | 1,845 | 1,817 | 2,203 | 2,054 | 7,919 |
| Gross profit | 3,886 | 4,255 | 4,456 | 4,090 | 16,687 | 4,194 | 4,220 | 4,683 | 4,123 | 17,220 |
| Gross margin | 67 % | 61 % | 67 % | 69 % | 66 % | 69 % | 70 % | 68 % | 67 % | 68 % |
| Operating expenses | 4,947 | 5,090 | 5,071 | 5,293 | 20,401 | 5,295 | 4,725 | 4,649 | 4,975 | 19,644 |
| Operating income (loss), a GAAP measure | \$ (1,061) | \$ (835) | \$ (615) | \$ (1,203) | \$ (3,714) | \$ (1,101) | \$ (505) | \$ 34 | \$ (852) | \$ (2,424) |
| Acquisitions related intangible asset amortization | 27 | 25 | 27 | 18 | 97 | 25 | 34 | 29 | 27 | 115 |
| Depreciation and amortization | 141 | 157 | 169 | 163 | 630 | 179 | 154 | 104 | 146 | 583 |
| Contribution margin, a non-GAAP measure | \$ (893) | \$ (653) | \$ (419) | \$ (1,022) | \$ (2,987) | \$ (897) | \$ (317) | \$ 167 | \$ (679) | \$ (1,726) |

Corporate

| | | | | | | | | | | |
|---|------------|------------|------------|------------|-------------|------------|------------|------------|------------|-------------|
| Cost of revenue | 37 | 23 | 2 | (89) | (27) | (7) | (84) | 4 | 36 | (51) |
| Gross profit | (37) | (23) | (2) | 89 | 27 | 7 | 84 | (4) | (36) | 51 |
| Gross margin | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Operating expenses | 4,295 | 2,959 | 2,948 | 3,082 | 13,284 | 7,372 | 3,871 | 5,705 | 3,244 | 20,192 |
| Operating income (loss), a GAAP measure | \$ (4,332) | \$ (2,982) | \$ (2,950) | \$ (2,993) | \$ (13,257) | \$ (7,365) | \$ (3,787) | \$ (5,709) | \$ (3,280) | \$ (20,141) |
| Other income (expense), net | (226) | (13) | (50) | (217) | (506) | (287) | 15 | (243) | (128) | (643) |
| Depreciation and amortization | 187 | 119 | 139 | 48 | 493 | 361 | 246 | 634 | 260 | 1,501 |
| Restructuring and other charges | 1,564 | 150 | 557 | 255 | 2,526 | 385 | 413 | 499 | 192 | 1,489 |
| Stock-based compensation | 1,434 | 863 | 748 | 630 | 3,675 | 3,171 | 608 | 778 | 867 | 5,424 |
| Lease exit and related charges | — | — | — | — | — | 831 | 127 | 1,233 | 48 | 2,239 |
| Contribution margin, a non-GAAP measure | \$ (1,373) | \$ (1,863) | \$ (1,556) | \$ (2,277) | \$ (7,069) | \$ (2,904) | \$ (2,378) | \$ (2,808) | \$ (2,041) | \$ (10,131) |

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

| | 2017 | | | | | 2016 | | | | |
|---|----------------|------------|------------|------------|-------------|----------------|------------|------------|-------------|-------------|
| | Q1 | Q2 | Q3 | Q4 | YTD | Q1 | Q2 | Q3 | Q4 | YTD |
| | (in thousands) | | | | | (in thousands) | | | | |
| Reconciliation of GAAP Net income (loss) from continuing operations to adjusted EBITDA: | | | | | | | | | | |
| Net income (loss) from continuing operations | \$ (9,550) | \$ (3,779) | \$ (4,532) | \$ 447 | \$ (17,414) | \$ (15,410) | \$ (8,826) | \$ (3,334) | \$ (10,203) | \$ (37,773) |
| Income tax expense (benefit) | 455 | 360 | 139 | (3,732) | (2,778) | 157 | 228 | 252 | 139 | 776 |
| Interest income, net | (128) | (109) | (116) | (83) | (436) | (117) | (80) | (119) | (133) | (449) |
| (Gain) loss on investments, net | — | — | — | (4,500) | (4,500) | (3) | 46 | (6,021) | (2,495) | (8,473) |
| Equity in net loss of Rhapsody | 748 | 349 | — | 2,894 | 3,991 | — | 396 | 233 | 5,904 | 6,533 |
| Acquisitions related intangible asset amortization | 223 | 226 | 115 | 107 | 671 | 333 | 243 | 237 | 225 | 1,038 |
| Depreciation and amortization | 898 | 610 | 530 | 427 | 2,265 | 2,265 | 1,383 | 1,436 | 935 | 6,019 |
| Restructuring and other charges | 1,564 | 150 | 557 | 255 | 2,526 | 385 | 413 | 499 | 192 | 1,489 |
| Stock-based compensation | 1,434 | 863 | 748 | 630 | 3,675 | 3,171 | 608 | 778 | 867 | 5,424 |
| Lease exit and related charges, net of sublease income | — | — | — | — | — | 831 | 127 | 1,233 | 48 | 2,239 |
| Adjusted EBITDA, a non-GAAP measure | \$ (4,556) | \$ (1,330) | \$ (2,559) | \$ (3,555) | \$ (12,000) | \$ (6,388) | \$ (5,462) | \$ (4,806) | \$ (4,521) | \$ (23,177) |

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