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

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**FORM 8-K**

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**CURRENT REPORT**

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

**DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): May 2, 2019**

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**RealNetworks, Inc.**

(Exact name of registrant as specified in its charter)

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**WASHINGTON**  
(State or other jurisdiction  
of incorporation)

**001-37745**  
(Commission  
File Number)

**91-1628146**  
(I.R.S. Employer  
Identification No.)

**1501 First Avenue South, Suite 600**  
**Seattle, Washington 98134**  
(Address of principal executive offices) (Zip code)

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

**Not Applicable**  
(Former name or former address if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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**Item 2.02. Results of Operations and Financial Condition.**

On May 2, 2019, RealNetworks, Inc. announced its financial results for the first quarter ended March 31, 2019. The full text of the press release is furnished as Exhibit 99.1 hereto.

Furnished as Exhibit 99.2 hereto is additional information regarding non-GAAP financial measures included in certain public disclosures of RealNetworks, including its first quarter 2019 financial results press release.

The information set forth in this Item 2.02 shall not be deemed “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

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**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits.

Pursuant to the rules and regulations of the SEC, the attached exhibits are deemed to have been furnished to, but not filed with, the SEC.

<b>Exhibit No.</b>	<b>Description</b>
99.1	<a href="#"><u>Earnings Release of RealNetworks, Inc. dated May 2, 2019</u></a>
99.2	<a href="#"><u>Information Regarding Non-GAAP Financial Measures</u></a>



**REALNETWORKS ANNOUNCES FIRST QUARTER 2019 FINANCIAL RESULTS****SEATTLE — May 2, 2019 -**

RealNetworks, Inc. (Nasdaq: RNWK), a leader in digital media software and services, today announced its financial results for the first quarter ended March 31, 2019. The results below reflect the consolidation of Napster's financial results into RealNetworks' financial statements for the first quarter of 2019 following the closing of the acquisition on January 18, 2019. Napster is reported as a new segment in RealNetworks' financial statements and related disclosures for the first quarter of 2019.

- ***First quarter revenue of \$39.5 million***
- ***Positive net income of \$1.5 million, driven by one-time gain associated with acquisition of Napster to 84% majority owner***
- ***Announced SAFR™ for Security, integrating Real's best-of-breed video facial recognition product with leading Video Management Systems***

**Management Commentary**

“We continued to drive forward with SAFR, which we believe is our single largest growth opportunity,” said Rob Glaser, Chairman and CEO of RealNetworks. “Most notably, we launched SAFR for Security, which delivers tremendous value to security professionals by integrating our best-of-breed facial recognition solution with market leading Video Management Systems such as Genetec, Milestone Systems, and Digifort. We also significantly strengthened our senior management team by bringing in Jay Burrell as RealNetworks' Chief Revenue Officer for Computer Vision.”

Mr. Glaser added, “Our majority stake in Napster adds significant scale to our business. We look forward to continuing to work closely with Napster's CEO, Bill Patrizio, and the rest of the Napster management team to build on the great work they have done in the past year-and-a-half turning Napster around.”

**First Quarter 2019 Financial Highlights**

- Revenue was \$39.5 million (inclusive of \$24.3 million from Napster) and compared to \$16.6 million in the prior quarter and \$19.7 million in the prior year period. Revenue for the first quarter of 2019 included a \$0.6 million reduction to Napster's revenue as a result of purchase accounting.
  - Gross margin was 37%, down from 77% in the prior quarter and 74% in the prior year period. Napster's gross margin for the first quarter of 2019 was 16%.
  - Operating expenses increased \$7.1 million, or 39%, from the prior quarter and increased \$6.0 million, or 31%, from the prior year period. Napster's operating expenses were \$5.5 million for the first quarter of 2019. Included in total operating expenses were \$0.8 million of transaction costs related to the acquisition of Napster.
  - Net income attributable to RealNetworks was \$1.5 million, or \$0.04 per share, compared to net loss of \$(6.9) million, or \$(0.18) per share, in the prior quarter and a net loss of \$(5.2) million, or \$(0.14) per share, in the prior year period. Included in net income attributable to RealNetworks was of a gain of \$12.3 million in the first quarter of 2019 related to the acquisition of Napster.
  - Adjusted EBITDA was a loss of \$(7.9) million compared to a loss of \$(4.1) million in the prior quarter and a loss of \$(3.0) million in the prior year period. A reconciliation of GAAP net income (loss)
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including noncontrolling interests to adjusted EBITDA, a non-GAAP measure, is provided in the financial tables that accompany this release.

- At March 31, 2019, the Company had \$36.9 million in unrestricted cash and cash equivalents compared to \$35.6 million at December 31, 2018. Napster's cash and cash equivalents were \$10.1 million at the time of acquisition.

## **Business Outlook**

For the second quarter of 2019, RealNetworks expects to achieve the following results including noncontrolling interests:

- Total revenue is expected to be in the range of \$43.0 million to \$46.0 million.
- Adjusted EBITDA loss is expected to be in the range of \$(4.5) million to \$(7.5) million.

## **Acquisition of Napster**

As previously disclosed, on January 18, 2019, RealNetworks completed the acquisition of additional debt and equity interests in Rhapsody International, Inc., which does business as Napster, bringing RealNetworks' interest in Napster to 84% following the acquisition. RealNetworks committed to pay \$1.0 million cash in connection with the closing and, subject to certain conditions, up to an additional \$14.0 million over the following five years, with additional consideration depending on subsequent events, for a potential total of up to \$40.0 million. Napster will continue to run as an independent subsidiary of RealNetworks with its own board of directors, strategy, and management team.

RealNetworks recorded 100% of the estimated fair value of the assets acquired and liabilities assumed as of January 18, 2019, with the 16% of Napster that it does not own accounted for as a noncontrolling interest in the consolidated financial statements. Napster's results of operations and cash flows are included in the Company's consolidated results from the acquisition date forward. As part of this consolidation, the acquisition accounting treatment resulted in a non-cash gain of \$12.3 million in the first quarter of 2019. RealNetworks' consolidated balance sheet reflects the estimated fair value of recognized intangibles (after amortization post-acquisition) totaling \$22.7 million and residual goodwill of \$48.5 million at March 31, 2019, and Napster's working capital deficit, which results in a consolidated working capital deficit.

Due to the limited time since the closing of the transaction and the complexity of the transaction, the purchase price allocation is preliminary and subject to change, which may result from additional information becoming available and additional analyses being performed on these acquired assets and assumed liabilities. Such changes could impact the estimated fair value of any of the assets and liabilities assumed, noncontrolling interests, and gain recognized from consolidation.

For additional details on the Napster acquisition, see RealNetworks' Annual Report on Form 10-K for the year ended December 31, 2018 and its upcoming 10-Q for the quarter ended March 31, 2019.

## **New Lease Accounting Standard**

As of January 1, 2019, RealNetworks adopted the new accounting guidance related to leases, using the modified retrospective transition method, under which prior periods presented have not been recast to reflect adoption of the new guidance. As a result of this new guidance, the Company now capitalizes its operating leases, which previously were off-balance sheet obligations subject to disclosure but not recognition. Capitalization of the

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operating leases resulted in the recognition of a material amount of Operating lease assets and related Operating lease liabilities on its consolidated balance sheet, but did not impact its consolidated statement of operations.

For additional details on the impact of the new guidance, see the Company's upcoming 10-Q for the quarter ended March 31, 2019.

### **Conference Call and Webcast Information**

The Company will host a conference call today to review results and discuss its 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 (United States) or 1-201-389-0879 (International). A telephonic replay of the call will also be available shortly after the completion of the call, until 11:59 pm ET on Thursday, May 23, 2019, by dialing 1-844-512-2921 (United States) or 1-412-317-6671 (International) and entering the replay pin number: 13689686.

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.

### **About RealNetworks**

Building on a legacy of digital media expertise and innovation, RealNetworks has created a new generation of products that employ best-in-class artificial intelligence and machine learning to enhance and secure our daily lives. SAFR ([www.safr.com](http://www.safr.com)) is the world's premier facial recognition platform for live video. Leading in real-world performance and accuracy as evidenced in testing by NIST, SAFR enables new applications for security, convenience, and analytics. Kontxt ([www.kontxt.com](http://www.kontxt.com)) is the foremost platform for categorizing A2P messages to help mobile carriers build customer loyalty and drive new revenue through text message classification and antisпам. For information about our other products, visit [www.realnworks.com](http://www.realnworks.com).

### **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) including noncontrolling interests 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 our 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 Napster segment. 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 our expectations as of today, and actual results may differ materially from the results predicted. Factors that could cause actual results for RealNetworks, on a consolidated basis, to differ from the results predicted

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include: our ability to realize operating efficiencies, growth and other benefits from the implementation of our growth initiatives; successful monetization of our products and services; competitive risks, including the emergence or growth of competing technologies, products and services; potential outcomes and effects of claims and legal proceedings; risks associated with key customer or strategic relationships and business acquisitions; disruptions in the global financial markets, including changes in consumer spending and impacts to credit availability; fluctuations in foreign currencies; and unique risk factors that relate to our Napster segment, such as risks stemming from its streaming music service and related music royalties. More information about potential risk factors that could affect our 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 our financial statements and forward-looking financial guidance requires us 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. RealNetworks assumes no obligation to update any forward-looking statements or information, which are in effect as of their respective dates.

**For More Information:**

Investor Relations for RealNetworks  
Kimberly Orlando, Addo Investor Relations  
310-829-5400  
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RNWK-F

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

	Quarter Ended March 31,	
	2019	2018
	(in thousands, except per share data)	
Net revenue	\$ 39,472	\$ 19,650
Cost of revenue	24,870	5,136
Gross profit	14,602	14,514
Operating expenses:		
Research and development	8,833	7,694
Sales and marketing	8,142	5,997
General and administrative	8,364	5,601
Restructuring and other charges	167	501
Lease exit and related benefit	—	(325)
Total operating expenses	25,506	19,468
Operating loss	(10,904)	(4,954)
Other income (expenses):		
Interest expense	(166)	—
Interest income	77	87
Gain (loss) on equity investment, net	12,338	—
Other income (expenses), net	127	(41)
Total other income (expenses), net	12,376	46
Income (loss) before income taxes	1,472	(4,908)
Income tax expense	258	270
Net income (loss) including noncontrolling interests	1,214	(5,178)
Net income (loss) attributable to noncontrolling interests	(319)	—
Net income (loss) attributable to RealNetworks	\$ 1,533	\$ (5,178)
Net income (loss) per share attributable to RealNetworks- Basic:	\$ 0.04	\$ (0.14)
Net income (loss) per share attributable to RealNetworks- Diluted:	\$ 0.04	\$ (0.14)
Shares used to compute basic net income (loss) per share	37,820	37,449
Shares used to compute diluted net income (loss) per share	37,912	37,449

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

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
(in thousands)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 36,897	\$ 35,561
Short-term investments	—	24
Trade accounts receivable, net	32,427	11,751
Deferred costs, current portion	299	331
Prepaid expenses and other current assets	21,210	5,911
Total current assets	90,833	53,578
Equipment and software	35,779	37,458
Leasehold improvements	3,207	3,292
Total equipment, software, and leasehold improvements	38,986	40,750
Less accumulated depreciation and amortization	35,923	37,996
Net equipment, software, and leasehold improvements	3,063	2,754
Operating lease assets	13,943	—
Restricted cash equivalents	4,045	1,630
Other assets	2,687	3,997
Deferred costs, non-current portion	372	528
Deferred tax assets, net	846	851
Other intangible assets, net	22,692	26
Goodwill	65,368	16,955
Total assets	\$ 203,849	\$ 80,319
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,564	\$ 3,910
Accrued royalties, fulfillment and other current liabilities	97,890	11,312
Commitment to Napster	—	2,750
Deferred revenue, current portion	6,031	2,125
Notes payable	13,313	—
Total current liabilities	121,798	20,097
Deferred revenue, non-current portion	225	268
Deferred rent	—	986
Deferred tax liabilities, net	1,268	1,168
Long-term lease liabilities	10,929	—
Other long-term liabilities	10,875	960
Total liabilities	145,095	23,479
Total shareholders' equity	58,415	56,840
Noncontrolling interests	339	—
Total equity	58,754	56,840
Total liabilities and equity	\$ 203,849	\$ 80,319

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

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(in thousands)</b>	
Cash flows from operating activities:		
Net income (loss) including noncontrolling interests	\$ 1,214	\$ (5,178)
Adjustments to reconcile net income (loss) including noncontrolling interests to net cash used in operating activities:		
Depreciation and amortization	1,482	620
Stock-based compensation	1,384	1,157
Deferred income taxes, net	—	(40)
(Gain) loss on equity investment, net	(12,338)	—
Foreign currency (gain) loss	(151)	—
Mark to market adjustment of warrants	—	21
Net change in certain operating assets and liabilities	(910)	(2,005)
Net cash used in operating activities	(9,319)	(5,425)
Cash flows from investing activities:		
Purchases of equipment, software, and leasehold improvements	(482)	(316)
Proceeds from sales and maturities of short-term investments	24	4,231
Acquisition, net of cash acquired	12,260	—
Net cash provided by investing activities	11,802	3,915
Cash flows from financing activities:		
Tax payments from shares withheld upon vesting of restricted stock	(271)	(232)
Proceeds from notes payable	9,733	—
Repayments of notes payable	(8,437)	—
Other financing activities	450	—
Net cash provided by (used in) financing activities	1,475	(232)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(207)	331
Net increase (decrease) in cash, cash equivalents and restricted cash	3,751	(1,411)
Cash, cash equivalents and restricted cash, beginning of period	37,191	53,596
Cash, cash equivalents and restricted cash, end of period	\$ 40,942	\$ 52,185

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

	2019		2018		
	Q1	Q4	Q3	Q2	Q1
(in thousands)					
<b>Net Revenue by Segment</b>					
Consumer Media (A)	\$ 2,486	\$ 4,068	\$ 4,733	\$ 3,884	\$ 5,483
Mobile Services (B)	6,939	6,899	7,348	6,719	8,704
Games (C)	5,710	5,590	5,498	5,121	5,463
Napster (D)	24,337	—	—	—	—
<b>Total net revenue</b>	<u>\$ 39,472</u>	<u>\$ 16,557</u>	<u>\$ 17,579</u>	<u>\$ 15,724</u>	<u>\$ 19,650</u>
<b>Net Revenue by Product</b>					
<u>Consumer Media</u>					
- Software License (E)	\$ 735	\$ 2,049	\$ 2,746	\$ 1,808	\$ 3,337
- Subscription Services (F)	1,088	1,153	1,232	1,225	1,285
- Product Sales (G)	219	257	281	299	340
- Advertising & Other (H)	444	609	474	552	521
<u>Mobile Services</u>					
- Software License (I)	599	514	520	469	1,335
- Subscription Services (J)	6,340	6,385	6,828	6,250	7,369
<u>Games</u>					
- Subscription Services (K)	2,985	3,014	2,745	2,689	2,693
- Product Sales (L)	1,988	2,013	2,279	1,953	2,402
- Advertising & Other (M)	737	563	474	479	368
<u>Napster</u>					
- Subscription Services (N)	24,337	—	—	—	—
<b>Total net revenue</b>	<u>\$ 39,472</u>	<u>\$ 16,557</u>	<u>\$ 17,579</u>	<u>\$ 15,724</u>	<u>\$ 19,650</u>
<b>Net Revenue by Geography</b>					
United States	\$ 18,970	\$ 7,697	\$ 9,026	\$ 7,646	\$ 11,434
Rest of world	20,502	8,860	8,553	8,078	8,216
<b>Total net revenue</b>	<u>\$ 39,472</u>	<u>\$ 16,557</u>	<u>\$ 17,579</u>	<u>\$ 15,724</u>	<u>\$ 19,650</u>

**Net Revenue by Segment**

(A) The Consumer Media segment primarily includes revenue from the licensing of our portfolio of video codec technologies. Also included is RealPlayer and related products, such as the distribution of third-party software products, advertising on RealPlayer websites, sales of RealPlayer Plus software to consumers, and consumer subscriptions such as RealPlayer Plus and SuperPass.

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

(C) The Games segment primarily includes revenue from sales of mobile and PC games, online games subscription services, player purchases of in-game virtual goods, and advertising on games sites and social network sites.

(D) The Napster segment primarily includes revenue from subscription music offerings from on-demand streaming services and conditional downloads. Napster revenues are included in our consolidated results from the acquisition date forward.

**Net Revenue by Product**

- (E) Software licensing revenue within Consumer Media includes revenues from licenses of our video codec technologies.
  - (F) Subscriptions revenue within Consumer Media includes revenue from subscriptions such as our RealPlayer Plus and SuperPass offerings.
  - (G) Product sales within Consumer Media includes sales of RealPlayer Plus software to consumers.
  - (H) Advertising & other revenue within Consumer Media includes distribution of third-party software products and advertising on RealPlayer websites.
  - (I) Software license revenue within Mobile Services includes revenue from our integrated RealTimes platform.
  - (J) Subscription services revenue within Mobile Services includes revenue from ringback tones and our messaging platform services, as well as from related professional services provided to mobile carriers.
  - (K) Subscription services revenue within Games includes revenue from online games subscriptions.
  - (L) Product sales revenue within Games includes revenue from retail and wholesale games-related revenue, sales of mobile games, and player purchases of in-game virtual goods.
  - (M) Advertising & other revenue within Games includes advertising on games sites and social network sites.
  - (N) Subscription services revenue within Napster includes music tracks by way of on-demand streaming and conditional downloads offered directly to end consumers and distribution partners.
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**RealNetworks, Inc. and Subsidiaries**  
**Segment Results of Operations and Reconciliation to non-GAAP Contribution Margin**  
(Unaudited)

	2019		2018	
	Q1	Q4	Q1	Q4
(in thousands)				
<b>Consumer Media</b>				
Net revenue	\$ 2,486	\$ 4,068	\$ 5,483	\$ 4,068
Cost of revenue	833	882	993	882
Gross profit	1,653	3,186	4,490	3,186
Gross margin	66%	78%	82%	78%
Operating expenses	3,119	3,614	3,918	3,614
Operating income (loss), a GAAP measure	\$ (1,466)	\$ (428)	\$ 572	\$ (428)
Depreciation and amortization	54	49	46	49
Contribution margin, a non-GAAP measure	\$ (1,412)	\$ (379)	\$ 618	\$ (379)
<b>Mobile Services</b>				
Net revenue	\$ 6,939	\$ 6,899	\$ 8,704	\$ 6,899
Cost of revenue	2,048	2,121	2,316	2,121
Gross profit	4,891	4,778	6,388	4,778
Gross margin	70%	69%	73%	69%
Operating expenses	7,561	6,906	7,366	6,906
Operating income (loss), a GAAP measure	\$ (2,670)	\$ (2,128)	\$ (978)	\$ (2,128)
Acquisitions related intangible asset amortization	—	69	92	69
Depreciation and amortization	231	116	180	116
Contribution margin, a non-GAAP measure	\$ (2,439)	\$ (1,943)	\$ (706)	\$ (1,943)
<b>Games</b>				
Net revenue	\$ 5,710	\$ 5,590	\$ 5,463	\$ 5,590
Cost of revenue	1,670	1,622	1,817	1,622
Gross profit	4,040	3,968	3,646	3,968
Gross margin	71%	71%	67%	71%
Operating expenses	5,037	4,865	4,917	4,865
Operating income (loss), a GAAP measure	\$ (997)	\$ (897)	\$ (1,271)	\$ (897)
Acquisitions related intangible asset amortization	23	23	—	23
Depreciation and amortization	83	82	165	82
Contribution margin, a non-GAAP measure	\$ (891)	\$ (792)	\$ (1,106)	\$ (792)
<b>Napster</b>				
Net revenue	\$ 24,337	\$ —	\$ —	\$ —
Cost of revenue	20,396	—	—	—
Gross profit	3,941	—	—	—
Gross margin	16%	—%	—%	—%
Operating expenses	5,532	—	—	—
Operating income (loss), a GAAP measure	\$ (1,591)	\$ —	\$ —	\$ —
Acquisitions related intangible asset amortization	943	—	—	—
Depreciation and amortization	115	—	—	—

Contribution margin, a non-GAAP measure

\$ (533) \$ — \$ —

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**Corporate**

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Cost of revenue	\$ (77)	\$ (898)	\$ 10
Gross profit	77	898	(10)
Gross margin	N/A	N/A	N/A
Operating expenses	4,257	3,001	3,267
Operating income (loss), a GAAP measure	\$ (4,180)	\$ (2,103)	\$ (3,277)
Other income (expense), net	127	92	(41)
Foreign currency (gain) loss	(151)	(26)	22
Depreciation and amortization	33	58	137
Restructuring and other charges	167	553	501
Stock-based compensation	1,384	395	1,157
Lease exit and related benefit	—	—	(325)
Contribution margin, a non-GAAP measure <sup>(1)</sup>	\$ (2,620)	\$ (1,031)	\$ (1,826)

<sup>(1)</sup>2018 Corporate contribution margin was revised to exclude the impact of realized and unrealized foreign currency (gain) loss incurred in each respective period. Foreign currency (gain) loss is reported in Other income (expense), net, in our consolidated statement of operations.

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**RealNetworks, Inc. and Subsidiaries**  
**Reconciliation of Net income (loss) including noncontrolling interests to adjusted EBITDA, a non-GAAP measure**  
(Unaudited)

	2019	2018	
	Q1	Q4	Q1
	(in thousands)		
<b>Reconciliation of GAAP Net income (loss) including noncontrolling interests to adjusted EBITDA:</b>			
Net income (loss) including noncontrolling interests	\$ 1,214	\$ (6,904)	\$ (5,178)
Income tax expense (benefit)	258	1,494	270
Interest expense	166	—	—
Interest income	(77)	(74)	(87)
(Gain) loss on equity investment, net	(12,338)	—	—
Foreign currency (gain) loss	(151)	(26)	22
Equity in net loss of Napster	—	20	—
Acquisitions related intangible asset amortization	966	92	92
Depreciation and amortization	516	305	528
Restructuring and other charges	167	553	501
Stock-based compensation	1,384	395	1,157
Lease exit and related benefit	—	—	(325)
Adjusted EBITDA, a non-GAAP measure <sup>(1)</sup>	\$ (7,895)	\$ (4,145)	\$ (3,020)

<sup>(1)</sup>2018 adjusted EBITDA was revised to exclude the impact of realized and unrealized foreign currency (gain) loss incurred in each respective period. Foreign currency (gain) loss is reported in Other income (expense), net, in our consolidated statement of operations.

### About Non-GAAP Financial Measures

To supplement RealNetworks' condensed consolidated financial statements presented in accordance with GAAP, the Company presents investors with certain non-GAAP financial measures, including adjusted EBITDA and contribution margin by reportable segment. Contribution margin by reportable segment consists of operating income (loss) and includes other income (expense) net, but excludes the impact of the following: depreciation and amortization; acquisitions related intangible asset amortization; stock-based compensation; restructuring and other charges; lease exit and related charges; and foreign currency (gain) loss. Adjusted EBITDA consists of GAAP net income (loss) including noncontrolling interests and excludes the impact of the following: interest income and interest expense; income tax expense; gain on equity investment, net; foreign currency (gain) loss; equity in net loss of Rhapsody; acquisitions related intangible asset amortization; depreciation and amortization; restructuring and other charges; stock-based compensation; and lease exit and related charges.

RealNetworks believes that the presentation of adjusted EBITDA and contribution margin by reportable segment provide important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations. Management believes that the use of these non-GAAP financial measures provides consistency and comparability with RealNetworks' past financial reports, and also facilitates comparisons with other companies in the Company's industry, many of which use similar non-GAAP financial measures to supplement their GAAP results. Management uses these non-GAAP measures when evaluating operating performance because the inclusion or exclusion of the items described above provides additional useful measures of the Company's operating results and facilitates comparisons of the Company's core operating performance against prior periods and its business model objectives. The Company has chosen to provide this information to investors in order to enable them to perform additional analyses of past, present and future operating performance, to enable them to compare RealNetworks with other companies, and as a supplemental means to evaluate the Company's ongoing operations. Externally, the Company believes that adjusted EBITDA is useful to investors in their assessment of RealNetworks' operating performance and the valuation of the Company.

Internally, adjusted EBITDA and contribution margin by reportable segment are significant measures used by management for purposes of:

- supplementing the financial results and forecasts reported to the Company's board of directors;
- evaluating the operating performance of RealNetworks, which includes direct and incrementally controllable revenue and costs of operations but excludes items considered by management to be non-cash or non-operating such as interest income and interest expense, stock-based compensation, tax expense, depreciation and amortization, impairment of deferred costs and long-lived assets, gain on equity investment, net, foreign currency (gain) loss, and other items that are not within management's control;
- managing and comparing performance internally across the Company's businesses and externally against the Company's peers;
- establishing internal operating budgets; and
- evaluating and valuing potential acquisition candidates.

Adjusted EBITDA and contribution margin by reportable segment are not calculated in accordance with GAAP, and should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. Non-GAAP financial measures have limitations in that they do not reflect all of the costs associated with the operations of RealNetworks' business as determined in accordance with GAAP. As a result, you should not consider these measures in isolation or as a substitute for analysis of RealNetworks' results as reported under GAAP. The Company expects to continue to incur expenses similar to the non-GAAP adjustments described above, and exclusion of these items from its non-GAAP financial measures should not be construed as an inference that these costs are unusual or infrequent. Some of the limitations in relying on the Company's non-GAAP financial measures are that adjusted EBITDA and contribution margin by reportable segment are measures that the Company has defined for internal and investor purposes and are not in accordance with GAAP. A further limitation associated with these measures is that they do not include all costs and income that impact the Company's net income (loss) or operating income (loss) at the segment level. The Company compensates for these limitations by prominently disclosing GAAP net income (loss) and operating income (loss) by reportable segment, which the Company believes are the most directly comparable GAAP measures, and providing investors with reconciliations from GAAP net income (loss) including noncontrolling interests to adjusted EBITDA and operating income (loss) to contribution margin by reportable segment.

RealNetworks has included reconciliations of GAAP net income (loss) including noncontrolling interests to adjusted EBITDA and GAAP operating income (loss) by reportable segment to contribution margin by reportable segment for the relevant periods in the financial tables of its earnings press release, which is included as Exhibit 99.1 to this report.