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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2019

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 1-37745

RealNetworks, Inc.

(Exact name of registrant as specified in its charter)

Washington	**91-1628146**
(State of incorporation)	**(I.R.S. Employer Identification Number)**
1501 First Avenue South, Suite 600 Seattle, Washington	**98134**
(Address of principal executive offices)	**(Zip Code)**

(206) 674-2700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value $0.001 per share	RNWK	The NASDAQ Stock Market
Preferred Share Purchase Rights	RNWK	The NASDAQ Stock Market

The number of shares of the registrant’s Common Stock outstanding as of May 6, 2019 was 37,943,871.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REALNETWORKS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,897	$ 35,561
Short-term investments	—	24
Trade accounts receivable, net of allowances of $646 and $560	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, software, and leasehold improvements, at cost:		
Equipment and software	35,779	37,458
Leasehold improvements	3,207	3,292
Total equipment, software, and leasehold improvements, at cost	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
LIABILITIES AND SHAREHOLDERS' EQUITY		
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
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 37,918 shares in 2019 and 37,728 shares in 2018	37	37
Additional paid-in capital	642,059	641,930
Accumulated other comprehensive loss	(61,205)	(61,118)
Retained deficit	(522,476)	(524,009)
Total shareholders' equity	58,415	56,840
Noncontrolling interests	339	—
Total equity	58,754	56,840
Total liabilities and equity	$ 203,849	$ 80,319

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Quarter Ended March 31, 2019	Quarter Ended March 31, 2018
Net revenue (A)	$ 39,472	$ 19,650
Cost of revenue (B)	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
Comprehensive income (loss):		
Unrealized investment holding gains (losses), net of reclassification adjustments	$ —	$ 1
Foreign currency translation adjustments, net of reclassification adjustments	(87)	396
Total other comprehensive income (loss)	(87)	397
Net income (loss) including noncontrolling interests	1,214	(5,178)
Comprehensive income (loss) including noncontrolling interests	1,127	(4,781)
Comprehensive income (loss) attributable to noncontrolling interests	(319)	—
Comprehensive income (loss) attributable to RealNetworks	$ 1,446	$ (4,781)
(A) Components of net revenue:		
License and product revenue	$ 3,541	$ 7,414
Service revenue	35,931	12,236
	$ 39,472	$ 19,650
(B) Components of cost of revenue:		
License and product revenue	$ 1,369	$ 1,755
Service revenue	23,501	3,381
	$ 24,870	$ 5,136

See accompanying notes to unaudited condensed consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2019	**2018**
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:		
Trade accounts receivable	(143)	11,188
Prepaid expenses, operating lease and other assets	(1,063)	(917)
Accounts payable	(259)	(10,622)
Accrued, lease and other liabilities	555	(1,654)
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

See accompanying notes to unaudited condensed consolidated financial statements.

REALNETWORKS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Shareholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount						
Balances, January 1, 2018	37,341	$ 37	$ 638,727	$ (59,547)	$ (500,044)	$ 79,173	$ —	$ 79,173
Cumulative effect of revenue recognition accounting change					1,024	1,024	—	1,024
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	223	—	(232)	—	—	(232)	—	(232)
Stock-based compensation	—	—	1,157	—	—	1,157	—	1,157
Investments unrealized gains (losses), net of tax effects of $0	—	—	—	1	—	1	—	1
Foreign currency translation adjustments	—	—	—	396	—	396	—	396
Net income (loss)	—	—	—	—	(5,178)	(5,178)	—	(5,178)
Balances, March 31, 2018	37,564	$ 37	$ 639,652	$ (59,150)	$ (504,197)	$ 76,342	$ —	$ 76,342

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Shareholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount						
Balances, January 1, 2019	37,728	$ 37	$ 641,930	$ (61,118)	$ (524,009)	$ 56,840	$ —	$ 56,840
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	190	—	(271)	—	—	(271)	—	(271)
Napster acquisition	—	—	(1,346)	—	—	(1,346)	570	(776)
Stock-based compensation	—	—	1,384	—	—	1,384	—	1,384
Foreign currency translation adjustments	—	—	—	(87)	—	(87)	—	(87)
Net income (loss)	—	—	—	—	1,533	1,533	(319)	1,214
Other equity transactions	—	—	362	—	—	362	88	450
Balances, March 31, 2019	37,918	$ 37	$ 642,059	$ (61,205)	$ (522,476)	$ 58,415	$ 339	$ 58,754

See accompanying notes to unaudited condensed consolidated financial statements.

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. Our recently acquired Napster music business offers a comprehensive set of digital music products and services designed to provide consumers with broad access to digital music. For more information on Napster, see Note 5 Acquisitions.

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 and cash flow.

In this Quarterly Report on Form 10-Q (10-Q or Report), RealNetworks, Inc. and Subsidiaries is referred to as “RealNetworks”, the “Company”, “we”, “us”, or “our”.

Basis of Presentation. The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries in which it has a more than 50% voting interest. Noncontrolling interests primarily represent third-party ownership in the equity of Napster and are reflected separately in the Company’s financial statements. Intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal, recurring 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 quarter ended March 31, 2019 are not necessarily indicative of the results that may be expected for any subsequent period or for the year ending December 31, 2019. Certain information and disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC).

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2018 (the 10-K).

Use of Estimates. The preparation of financial statements in conformity with 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.

Note 2 Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued new guidance related to the accounting for leases. A major change in the new guidance is that lessees are now required to present right-of-use assets and lease liabilities on the balance sheet. Enhanced disclosures are also required to give financial statement users the ability to assess the amount, timing and uncertainty of cash flows arising from leases. We adopted the new guidance effective January 1, 2019 and elected to apply the new guidance at the beginning of the year of adoption, rather than applying the new guidance retrospectively to each prior reporting period presented. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward historical lease classification. We have finalized our assessment of the impacts resulting from the new standard, including the impact on our internal controls. As a result of our evaluation, we have modified certain accounting policies and practices and existing controls. Adoption of the standard resulted in the recognition of $12.5 million of operating lease assets and $14.6 million of current and long-term operating lease liabilities as of January 1, 2019. The difference between the operating lease assets and lease liabilities recorded upon adoption relates to previously accrued deferred rent and lease exit and related charges included on our balance sheet as of December 31, 2018. Lease exit and related charges previously recorded pertain to the reduction in use of RealNetworks' office space and included estimates of sublease income expected to be received. The new guidance did not materially impact our consolidated statement of operations in the quarter of adoption and did not cause revision to previously recorded estimates for lease exit charges. See Note 14 Leases for additional information about the new accounting standard.

In June 2018, the FASB issued new guidance related to the measurement and classification for share-based awards to non-employees. The new guidance essentially aligns the measurement and classification for these awards with that for share-based awards to employees. We adopted the new guidance effective January 1, 2019, with no material impact on our consolidated financial statements and related disclosures.

Recently issued accounting pronouncements not yet adopted

In January 2017, the FASB issued new guidance simplifying the test for goodwill impairment. The new guidance eliminates Step 2 from the goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the reporting unit's carrying amount exceeds the reporting unit's fair value. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. We are evaluating the impact of this guidance, but do not currently expect the adoption to have a material impact on our consolidated financial statements and related disclosures.

Note 3 Revenue Recognition

On January 1, 2018, we adopted the new revenue recognition standard by applying the modified retrospective approach to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new revenue recognition standard.

We recorded a net decrease to opening retained deficit of $1.0 million as of January 1, 2018 due to the cumulative impact of adopting the new revenue recognition standard. This impact primarily related to licensing of our RealPlayer product and full recognition of non-recurring engineering fees, which were previously deferred and amortized over the life of the contract.

We generate all of our revenue through contracts with customers. Revenue is either recognized over time as the service is provided, or at a point in time when the product is transferred to the customer, depending on the contract type. Our performance obligations typically have an original duration of one year or less.

Napster revenue arrangements include subscription services to the Napster music streaming service sold either directly to end users (direct to consumer) or through partners (business to business), who are generally telecommunications companies, that bundle the subscription with their own services or collect payment for the stand-alone subscriptions from their end customers. Napster also sells subscriptions to third parties to provide access to the Napster platform that is typically embedded in the third party's branded or co-branded service. Such subscriptions are included in the business to business sales channel.

For services sold through third parties to end customers, we evaluate the presentation of revenue on a gross or net basis based on whether we control the service provided to the end-user and are the principal (i.e. “gross”), or we arrange for other parties to provide the service to the end-user and are an agent (i.e. “net”). In our Napster business to business revenue stream, we generally operate as a principal in arrangements with end customers as we maintain control over the service prior to being transferred to the end customer.

Certain business to business customer arrangements include variable consideration based on usage. We estimate variable consideration as part of the total transaction price that is allocated to performance obligations, or distinct service periods within a performance obligation, on a relative standalone selling price basis.

Revenues related to Napster subscription services are recognized ratably over the contract period, typically 30 days. Direct to consumer subscriptions are paid in advance, typically on a monthly basis. Subscription services offered to businesses are invoiced on a monthly basis and the timing of payment generally does not vary significantly from the timing of invoice.

Disaggregation of Revenue

The following table presents our disaggregated revenue by source and segment (in thousands):

	Quarter Ended March 31, 2019			
	Consumer Media	Mobile Services	Games	Napster
Business Line				
Software License	$ 735	$ 599	$ —	$ —
Subscription Services	1,088	6,340	2,985	24,337
Product Sales	219	—	1,988	—
Advertising and Other	444	—	737	—
Total	$ 2,486	$ 6,939	$ 5,710	$ 24,337

	Quarter Ended March 31, 2018			
	Consumer Media	Mobile Services	Games	Napster
Business Line				
Software License	$ 3,337	$ 1,335	$ —	$ —
Subscription Services	1,285	7,369	2,693	—
Product Sales	340	—	2,402	—
Advertising and Other	521	—	368	—
Total	$ 5,483	$ 8,704	$ 5,463	$ —

The following table presents our disaggregated revenue by sales channel (in thousands):

	Quarter Ended March 31, 2019			
	Consumer Media	Mobile Services	Games	Napster
Sales Channel				
Business to Business	$ 1,178	$ 6,817	$ 1,036	$ 12,095
Direct to Consumer	1,308	122	4,674	12,242
Total	$ 2,486	$ 6,939	$ 5,710	$ 24,337

	Quarter Ended March 31, 2018			
	Consumer Media	Mobile Services	Games	Napster
Sales Channel				
Business to Business	$ 3,858	$ 8,530	$ 751	$ —
Direct to Consumer	1,625	174	4,712	—
Total	$ 5,483	$ 8,704	$ 5,463	$ —

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to our customers. We record accounts receivable when the right to consideration becomes unconditional, except for the passage of time. For certain contracts, payment schedules may exceed one year; for those contracts we recognize a long-term receivable. As of March 31, 2019 and December 31, 2018, our balance of long-term accounts receivable was insignificant and $0.7 million, respectively, and is included in other long-term assets on our condensed consolidated balance sheets. The decrease in this balance from December 31, 2018 to March 31, 2019 is primarily due to the timing of expected cash receipts. During the quarter ended March 31, 2019, we recorded no impairments to our contract assets.

We record deferred revenue when cash payments are received or due in advance of our completion of the underlying performance obligation. As of March 31, 2019, we had a deferred revenue balance of $6.3 million, an increase of $3.9 million from December 31, 2018, primarily due to deferred revenue associated with Napster.

Practical Expedients

For those contracts for which we recognize revenue at the amount to which we have the right to invoice for service performed, we do not disclose the value of any unsatisfied performance obligations. We also do not disclose the remaining unsatisfied performance obligations which have an original duration of one year or less. Additionally, we immediately expense sales commissions when incurred as the amortization period would have been less than one year. These costs are recorded within sales and marketing expense.

Note 4 Stock-Based Compensation

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

	Quarter Ended March 31,	
	2019	2018
Total stock-based compensation expense	$ 1,384	$ 1,157

The fair value of RealNetworks options granted determined using the Black-Scholes model used the following weighted-average assumptions:

	Quarter Ended March 31,	
	2019	2018
Expected dividend yield	0%	0%
Risk-free interest rate	2.51%	2.48%
Expected life (years)	3.8	4.1
Volatility	41%	35%

The total stock-based compensation amounts for 2019 and 2018 disclosed above are recorded in their respective line items within operating expenses in the unaudited condensed consolidated statements of operations and comprehensive income (loss). Included in the expense for the three months ended March 31, 2019 and 2018 was stock compensation expense recorded in the first quarter of 2019 and 2018 related to our 2018 and 2017 incentive bonuses paid in fully vested restricted stock units, which were authorized and granted in the first quarter of 2019 and 2018, respectively.

As of March 31, 2019, $3.2 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 3.1 years.

Note 5 Acquisitions

Napster

On January 18, 2019, RealNetworks acquired an additional 42% interest in Rhapsody International, Inc. (doing business as Napster) bringing our aggregate ownership to 84% of Napster's outstanding equity, thus giving RealNetworks a majority voting interest. Napster's music streaming service provides users with broad access to digital music, offering on-demand streaming and conditional downloads through unlimited access to a catalog of millions of music tracks. Napster offers music services worldwide and generates revenue primarily through subscriptions to its music services either directly to consumers or through distribution partners.

Initially formed in 2007 and branded then as Rhapsody, Napster began as a joint venture between RealNetworks and MTV Networks, a division of Viacom International, Inc. Prior to the acquisition of the additional 42% interest in Napster, we accounted for our investment using the equity method of accounting.

Following the January 2019 acquisition, RealNetworks has the right to nominate directors constituting a majority of the Napster board of directors, however, Napster will continue to operate as an independent business with its own board of directors, strategy and leadership team. We are consolidating Napster's financial results into our financial statements for fiscal periods following the closing of the acquisition. For our first fiscal quarter of 2019, Napster is reported as a new segment in RealNetworks' consolidated financial statements.

We have preliminarily recorded 100% of the estimated fair value of the assets acquired and liabilities assumed as of January 18, 2019 based on the results of an independent valuation. The 16% of Napster that we do not own is accounted for as a noncontrolling interest in our consolidated financial statements, and as part of this consolidation, the carrying value of our previous 42% equity method investment has been remeasured to fair value. The remeasurement to fair value of the historical 42% ownership interest resulted in the recognition of a $2.7 million gain in the quarter ended March 31, 2019, which is a component of the overall gain recognized as a part of this transaction. Our consolidated balance sheet reflects Napster's working capital deficit, which results in a consolidated working capital deficit. RealNetworks does not have any contractual or implied obligation to provide funding or other financial support to Napster, or to guarantee or provide other such support related to Napster's third party borrowing or Napster's other obligations, except as discussed in Note 15 Commitments and Contingencies.

The terms of the transaction included initial cash consideration of $1.0 million and additional contingent consideration. Initial cash consideration of $0.2 million was paid at closing and the remainder of the initial cash consideration is included in accrued royalties, fulfillment and other current liabilities and will be paid when due with existing cash balances. With regards to contingent consideration, over the five years following the acquisition, RealNetworks will pay the lesser of the following:

(a) an additional $14.0 million to seller, or

(b) if RealNetworks sells the interest to a third party for less than $15.0 million, the actual amount received by RealNetworks, minus the $1.0 million initial payment.

In the event that RealNetworks sells such equity interest for consideration in excess of $15.0 million, RealNetworks will pay seller additional consideration, dependent on the sale price, which shall in no event exceed an additional $25.0 million. In order for seller to receive the full $40.0 million, the proceeds from the sale of Napster received by RealNetworks for the 42% equity interest acquired would have to exceed $60.0 million. These contingent consideration amounts were part of the total consideration at estimated fair value, as described in more detail below.

The following table summarizes the preliminary allocation of the total consideration to the estimated fair values of the assets acquired and liabilities assumed as of January 18, 2019 (in thousands):

Consideration, at estimated fair value:		
Cash	$	1,000
Contingent consideration		11,600
RealNetworks' preexisting 42% equity interest in Napster		2,700
Effective settlement of Napster debt and warrants, held by RealNetworks		6,408
Total consideration	$	21,708
Assets acquired and liabilities assumed, at estimated fair value:		
Cash and cash equivalents	$	10,138
Accounts receivable		20,838
Prepaid expenses and other current assets		12,879
Restricted cash		2,322
Equipment, software and leasehold improvements		474
Operating lease assets		2,314
Other long-term assets		77
Deferred tax assets, net		5,942
Intangible assets		23,700
Goodwill		48,474
Total assets acquired		127,158
Accounts payable		937
Accrued royalties and fulfillment		71,980
Accrued and other current liabilities		7,475
Deferred revenue, current portion		3,600
Notes payable		12,115
Deferred tax liabilities, net		6,061
Long-term lease liabilities		1,197
Other long-term liabilities		1,515
Total liabilities assumed		104,880
Total net assets acquired		22,278
Noncontrolling interests		570
Net assets acquired	$	21,708

Under the acquisition method of accounting, the purchase price is allocated to the assets acquired and the liabilities assumed based on their estimated fair values. Due to the complexity and limited time since closing the transaction, the purchase price allocation is 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 estimated fair values of intangible assets, accrued royalties and fulfillment, deferred revenue, and assets and liabilities assumed, as well as the contingent consideration, noncontrolling interests, and gain recognized from consolidation. Purchase price allocation adjustments may be recorded during the measurement period (a period not to exceed 12 months from the acquisition date). The final purchase price allocation could result in material differences, which could have a material impact on our financial statements.

Acquired intangible assets have a total weighted average useful life of approximately 8 years, are being amortized using the straight line method, and are comprised of the following (in thousands):

Intangible category		Estimated fair value	Method used to calculate fair value	Estimated remaining useful life
Trade name and trademarks	$	6,800	Relief-from-royalty	15 years
Developed technology		5,900	Excess earnings	4 years
Customer relationships		5,900	Cost-to-replace	3 years
Partner relationships		5,100	Distributor method	8 years
Total	$	23,700		

The estimated fair value amounts for each of these intangibles were determined using a fair value measurement categorized within Level 3 of the fair value hierarchy.

The fair value of the trade name and trademarks intangible asset was estimated using the income approach, utilizing the relief from royalty method, which values the assets by estimating the savings achieved by ownership of trade name and trademarks when compared with the cost of licensing them from an independent owner.

The fair value of developed technology was estimated using the income approach, utilizing the excess earnings method. Under this method, cash flows attributable to the asset are estimated by deducting economic costs, including operating expenses and contributory asset charges, from revenue expected to be generated by the asset.

The fair value of customer relationships was estimated using a cost-to-replace approach, whereby the number of subscribers and the cost to acquire subscribers are key estimates utilized in the valuation.

The fair value of partner relationships was estimated using the income approach, which uses market-based distributor data to value underlying distributor relationships. Revenue, earnings, and cash flow estimates associated with these underlying distributor relationships are key estimates in determining the fair value of the partner relationships intangibles.

The fair value of deferred revenue was estimated using the income approach, utilizing a cost to fulfill analysis by estimating the direct and indirect costs related to supporting remaining obligations plus an assumed operating margin.

The fair value of our preexisting 42% equity method investment has been remeasured to an estimated fair value of $2.7 million, which resulted in a pretax gain of $2.7 million, as our existing carrying value was zero. This gain, as well as the settlement of preexisting relationships and other purchase accounting adjustments discussed below, comprise the total gain of $12.3 million recognized in Other income (expenses) in the Consolidated statement of operations for the quarter ended March 31, 2019.

The fair value of our preexisting equity method investment was calculated using an average of the income and market approach to arrive at estimated total enterprise value. The income approach fair value measurement was based on significant inputs that are not observable in the market and thus represents a fair value measurement categorized within Level 3 of the fair value hierarchy. Key assumptions used in estimating future cash flows included projected revenue growth and operating expenses, as well as the selection of an appropriate discount rate. Estimates of revenue growth and operating expenses were based on internal projections and considered the historical performance of Napster's business. The discount rate applied was based on Napster's weighted-average cost of capital and included a small-company risk premium. The market approach fair value measurement was based on a market comparable methodology. We used a group of comparable companies and selected an appropriate EBITDA and revenue multiple to apply to Napster's trailing twelve months and projected 2019, 2020 and 2021 EBITDA (weighted 90%) and revenues (weighted 10%). Assumptions in both the income and market approaches are significant to the overall valuation of Napster and changes to these assumptions could materially impact the preliminary fair values of assets acquired and liabilities assumed, noncontrolling interests, total consideration, and gain on consolidation.

The fair value of the contingent consideration was estimated using multiple scenarios for each tranche of contingent consideration and then probability weighting each scenario and discounting them to estimated fair value of $11.6 million. This fair value calculation is directly impacted by the estimated total enterprise value described above. After the completion of the measurement period or in conjunction with changes in fair value unrelated to our preliminary estimate of fair value, the contingent consideration will be adjusted quarterly to fair value through earnings. Of the total amount of $11.6 million, we have accrued $2.6 million and $9.0 million in Accrued royalties, fulfillment and other current liabilities, and Other long-term liabilities, respectively.

The effective settlement of Napster's debt and warrants totaling $6.4 million represents the estimated fair value of debt and warrants held between RealNetworks and Napster as of the acquisition date. The estimated fair value is derived from the estimated total enterprise value described above. The resulting net gain of $5.5 million is included in Other income (expenses) in the Consolidated statement of operations.

As discussed in Note 15 Commitments and Contingencies, the preexisting $2.8 million guarantee related to Napster's outstanding indebtedness on their revolving credit facility was eliminated upon the consolidation of Napster. This resulted in RealNetworks recording a gain of $2.8 million, which is included in Other income (expenses) in the Consolidated statement of operations.

Prior to our acquisition of Napster, we accounted for our investment under the equity method of accounting and recorded Napster 's foreign currency translation adjustments in our equity. As part of the acquisition method of accounting, we released these amounts and recorded a gain of $1.3 million, which is included in Other income (expenses) in the Consolidated statement of operations.

We recorded the fair value of noncontrolling interests, estimated at $0.6 million, using the estimated total enterprise value described above.

We also recorded goodwill of $48.5 million, representing the intangible assets that do not qualify for separate recognition for accounting purposes, including the expected growth in Napster's business to business model and the assembled workforce. The goodwill is reported in our Napster segment and is not deductible for income tax purposes. As discussed above, during the measurement period, purchase price allocation adjustments or changes in assumptions used in determining the total estimated enterprise value of Napster could materially impact goodwill recognized. Moreover, future performance of the Napster business will factor into our goodwill impairment analysis.

We began consolidating Napster's results of operations and cash flows into our consolidated financial statements after January 18, 2019. For the quarter ended March 31, 2019, Napster's revenue and net loss including noncontrolling interests in our consolidated statements of operations was $24.3 million and $1.8 million, respectively.

The following table provides the supplemental pro forma revenue and net results of the combined entity had the acquisition date of Napster been the first day of our first quarter of 2018 rather than during our first quarter of 2019 (in thousands):

	Quarter Ended - Pro Forma (Unaudited) March 31,	
	2019	**2018**
Net revenue	$ 45,838	$ 59,849
Net income (loss) attributable to RealNetworks [1]	(9,517)	6,989

[1]The pro forma net earnings attributable to RealNetworks for the quarter ended March 31, 2018 include the acquisition-related gain of $12.3 million and $0.8 million of transaction costs.

The amounts in the supplemental pro forma earnings for the periods presented above fully eliminate intercompany transactions and conform Napster's accounting policies to RealNetworks'. These pro forma results also reflect amortization of acquisition-related intangibles and fair value adjustments to deferred revenue.

The unaudited pro forma amounts are based upon the historical financial statements of RealNetworks and Napster and were prepared using the acquisition method of accounting and are not necessarily indicative of results for any current or future period. The purchase price allocation is preliminary and is subject to change prior to finalization. The final purchase price allocation could result in material differences, which could have a material impact on the accompanying pro forma amounts.

For the quarter ended March 31, 2019, we incurred approximately $0.8 million in acquisition-related costs, including regulatory, legal, and other advisory fees, which we have recorded within general and administrative expenses.

Games

As described in more detail in our 2018 10-K, in order to acquire a full workforce, we purchased 100% of the shares of a small, privately-held Netherlands-based game development studio for net cash consideration of $4.2 million in April 2018.

Note 6 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 March 31, 2019 and December 31, 2018, and indicates the fair value hierarchy of the valuation inputs utilized to determine fair value (in thousands):

	Fair Value Measurements as of March 31, 2019				Amortized Cost as of March 31, 2019
	Level 1	Level 2	Level 3	Total	
Assets:					
Cash and cash equivalents:					
Cash	$ 29,530	$ —	$ —	$ 29,530	$ 29,530
Money market funds	7,367	—	—	7,367	7,367
Total cash and cash equivalents	36,897	—	—	36,897	36,897
Restricted cash equivalents	1,921	2,124	—	4,045	4,045
Total assets	$ 38,818	$ 2,124	$ —	$ 40,942	$ 40,942
Liabilities:					
Accrued royalties, fulfillment and other current liabilities					
Napster acquisition contingent consideration	$ —	$ —	$ 2,586	$ 2,586	N/A
Other long-term liabilities					
Napster acquisition contingent consideration	—	—	9,014	9,014	N/A
Total liabilities	$ —	$ —	$ 11,600	$ 11,600	N/A

	Fair Value Measurements as of December 31, 2018				Amortized Cost as of December 31, 2018
	Level 1	Level 2	Level 3	Total	
Assets:					
Cash and cash equivalents:					
Cash	$ 22,853	$ —	$ —	$ 22,853	$ 22,853
Money market funds	12,708	—	—	12,708	12,708
Total cash and cash equivalents	35,561	—	—	35,561	35,561
Short-term investments:					
Corporate notes and bonds	—	24	—	24	24
Total short-term investments	—	24	—	24	24
Restricted cash equivalents	—	1,630	—	1,630	1,630
Warrants issued by Napster (included in Other assets)	—	—	865	865	—
Total assets	$ 35,561	$ 1,654	$ 865	$ 38,080	$ 37,215

Restricted cash equivalents as of March 31, 2019 and December 31, 2018 relate to cash pledged as collateral against letters of credit in connection with lease agreements and to a financial covenant in Napster's Amended Revolver Loan and Security Agreement (Revolver LSA). At March 31, 2019, $1.9 million of restricted cash equivalents related to the Revolver LSA covenant that requires Napster to maintain a cash balance at the bank of not less than $1.5 million at all times and 5% of all amounts outstanding under Napster's Non-Recourse Purchase of Eligible Receivables Agreement. See Note 10 Notes Payable - Napster for additional details.

Accrued royalties, fulfillment and other current liabilities and Other long-term liabilities as of March 31, 2019 include the preliminary estimated fair value of the contingent consideration for the Napster acquisition, which was determined using a fair value measurement categorized within Level 3 of the fair value hierarchy. As discussed in Note 5 Acquisitions, after completion of the measurement period or in conjunction with changes in fair value unrelated to our preliminary estimate of fair value, this liability will be adjusted quarterly to fair value through earnings.

Realized gains or losses on sales of short-term investment securities for the quarters ended March 31, 2019 and 2018 were not significant. Gross unrealized gains and losses on short-term investment securities as of March 31, 2019 and December 31, 2018 were also not significant.

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). During the three months ended March 31, 2019 and 2018, we did not record any impairments on those assets required to be measured at fair value on a non-recurring basis.

Note 7 Other Intangible Assets

Other intangible assets (in thousands):

	March 31, 2019			December 31, 2018		
	Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Amortizing intangible assets:						
Customer relationships	$ 41,507	$ 31,117	$ 10,390	$ 30,993	$ 30,993	$ —
Developed technology	30,164	24,571	5,593	24,446	24,446	—
Patents, trademarks and tradenames	10,506	3,801	6,705	3,765	3,765	—
Service contracts	5,474	5,470	4	5,538	5,512	26
Total	$ 87,651	$ 64,959	$ 22,692	$ 64,742	$ 64,716	$ 26

Amortization expense related to other intangible assets during the quarters ended March 31, 2019, and March 31, 2018, was $1.0 million and $0.1 million, respectively.

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

	Future Amortization
2019 (Excluding the three months ended March 31, 2019)	$ 3,392
2020	4,518
2021	4,518
2022	2,634
2023	1,138
Thereafter	6,492
	$ 22,692

See Note 5 Acquisitions for details on our acquisitions. No impairments of other intangible assets were recognized in either of the three months ended March 31, 2019 or 2018.

Note 8 Goodwill

The following table presents changes in goodwill (in thousands):

Balance, December 31, 2018	$	16,955
Increases due to current year acquisitions		48,474
Effects of foreign currency translation		(61)
Balance, March 31, 2019	$	65,368

See Note 5 Acquisitions for details on our acquisitions and the impact to goodwill.

The following table presents goodwill by segments (in thousands):

		March 31, 2019
Consumer Media	$	580
Mobile Services		2,059
Games		14,255
Napster		48,474
Total goodwill	$	65,368

No impairment of goodwill was recognized in either of the three months ended March 31, 2019 or in 2018.

Note 9 Accrued royalties, fulfillment and other current liabilities

Accrued royalties, fulfillment and other current liabilities (in thousands):

	March 31, 2019	December 31, 2018
Royalties and other fulfillment costs	$ 75,731	$ 1,989
Employee compensation, commissions and benefits	6,242	4,444
Sales, VAT and other taxes payable	3,706	785
Operating Lease Liabilities - Current	4,890	—
Other	7,321	4,094
Total accrued royalties, fulfillment and other current liabilities	$ 97,890	$ 11,312

Included in royalties and other fulfillment costs are Napster's accrued music royalties totaling $73.7 million. Napster's agreements and arrangements with rights holders for the content used in its business are complex and the determination of royalty accruals involves significant judgments, assumptions, and estimates of the amounts to be paid.

The variables involved in determining royalty accruals include unmatched royalty accruals, revenue to be recognized, the type of content used and the country it is used in, outstanding royalty audits, and identification of appropriate license holders, among other variables. In addition, some rights holders have allowed the use of their content while negotiations of the terms and conditions are ongoing. In certain jurisdictions, rights holders have several years to claim royalties for musical composition.

While Napster bases its estimates on historical experience and on various assumptions that management believes to be reasonable under the circumstances, actual results may differ materially from these estimates in the event of modified assumptions or conditions.

Related to Napster's accrued music royalties are amounts that are advanced to certain music publishers for royalty amounts that have been agreed as being owed, but for which the underlying rights holder have not yet been specifically matched. These prepaid royalty amounts totaling $12.8 million at March 31, 2019 are included in Prepaid expenses and other current assets on the unaudited condensed consolidated balance sheets. When these amounts are ultimately matched and invoiced to Napster, the prepaid royalty amount and the related accrued royalty liability are offset on the unaudited condensed consolidated balance sheets.

Note 10 Notes Payable - Napster

In 2015, Napster entered into a Loan and Security Agreement (Revolver LSA) with a bank. The Revolver LSA was amended and restated in 2017 and, in January 2019, Napster entered into the second amendment to the amended Revolver LSA. The available borrowing on the Revolver LSA is based upon Napster's accounts receivable and direct to consumer subscription deposits. The amended Revolver LSA has a maximum available balance of $7 million. The maturity date is no later than April 30, 2019 with earlier maturity possible based on conditions set forth in the Revolver LSA. The interest rate is 0.75% above the Prime Rate (defined as the greater of 4.25% or the Prime Rate published in the Wall Street Journal). Interest is due monthly. At March 31, 2019, Napster had $4.9 million borrowings outstanding with an interest rate of 6.25%. Subsequent to quarter end, the Revolver LSA matured and the loan balance was paid in full on April 30, 2019.

In 2017, Napster entered into a Non-Recourse Purchase of Eligible Receivables Agreement (NRP Agreement) with an international bank (Purchaser) in which Napster will sell and assign on a continuing basis its eligible receivables to the Purchaser in return for 90% of the receivables upfront, up to a maximum amount of $15.0 million in advances. The interest rate is 2.25% above the 1-month-EURIBOR with a minimum 0.0% rate applying to the 1-month-EURIBOR rate. At March 31, 2019, Napster had $8.4 million borrowings outstanding with an interest rate of 2.25%.

The Revolver LSA required Napster to maintain a balance of unrestricted cash at the bank of not less than $1.5 million plus 5% of the total amount outstanding under the NRP Agreement. At March 31, 2019, Napster had $1.9 million of restricted cash equivalents related to the Revolver LSA covenant. As the loan was paid off on April 30, 2019, this amount is no longer restricted.

Note 11 Restructuring Charges

Restructuring and other charges in 2019 and 2018 consist of costs associated with the ongoing reorganization of our business operations and our ongoing expense re-alignment efforts. The expense amounts in both years relate primarily to severance costs due to workforce reductions.

Restructuring charges are as follows (in thousands):

	Employee Separation Costs	
Costs incurred and charged to expense for the three months ended March 31, 2019	$	167
Costs incurred and charged to expense for the three months ended March 31, 2018	$	501

Changes to the accrued restructuring liability (which is included in Accrued royalties, fulfillment and other current liabilities) for 2019 (in thousands) are as follows:

	Employee Separation Costs	
Accrued liability at December 31, 2018	$	755
Costs incurred and charged to expense for the three months ended March 31, 2019		167
Cash payments		(590)
Accrued liability at March 31, 2019	$	332

Note 12 Income Taxes

As of March 31, 2019, RealNetworks has $4.5 million in uncertain tax positions. The increase in uncertain tax position at March 31, 2019 is related to $4.1 million of unrecognized tax positions recorded through purchase accounting on January 18, 2019 as a result of the acquisition of Napster. 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.

Note 13 Income (Loss) Per Share

Basic net income (loss) per share (EPS) is computed by dividing net income (loss) attributable to RealNetworks by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income (loss) attributable to RealNetworks by the weighted average number of common and dilutive potential common shares outstanding during the period. Basic and diluted EPS (in thousands, except per share amounts):

	Quarter Ended March 31,			
	2019		2018	
Net income (loss) attributable to RealNetworks	$	1,533	$	(5,178)
Weighted average common shares outstanding used to compute basic EPS		37,820		37,449
Dilutive effect of stock based awards		92		—
Weighted average common shares outstanding used to compute diluted EPS		37,912		37,449
Basic EPS attributable to RealNetworks	$	0.04	$	(0.14)
Diluted EPS attributable to RealNetworks	$	0.04	$	(0.14)

During the quarters ended March 31, 2019 and 2018, 6.8 million and 6.2 million shares of common stock, respectively, of potentially issuable shares from stock awards were excluded from the calculation of diluted EPS because of their antidilutive effect.

Note 14 Leases

We have commitments for future payments related to office facilities leases. We determine if an arrangement is a lease at inception. Operating leases are included in Operating lease assets, Other current liabilities, and Long-term lease liabilities on our consolidated balance sheets. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

Operating lease assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As our leases do not provide an implicit rate, we use our estimated incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Operating lease assets also exclude lease incentives and initial direct costs incurred. Some of our leases include options to extend or terminate the lease. Our leases generally include one or more options to renew; however, the exercise of lease renewal options is at our sole discretion. For nearly all of our operating leases, upon adoption of the new guidance, we have not assumed any options to extend will be exercised as part of our calculation of the lease liability. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We have operating leases for office space and data centers with remaining lease terms of 1 year to 6 years.

Details related to our operating lease assets and operating lease liabilities (in thousands, except lease term and discount rate):

		Quarter Ended March 31, 2019
Operating lease expense	$	1,340
Variable lease expense		153
Sublease income		(475)
Net lease expense	$	1,018
Operating cash outflows for lease liabilities	$	1,461
Weighted-average remaining lease term		4 Years
Weighted-average discount rate		5.11%

Future minimum lease payments as of March 31, 2019 were as follows (in thousands):

		Operating Leases
2019 (Excluding the three months ended March 31, 2019)	$	3,919
2020		4,445
2021		3,065
2022		2,430
2023		2,348
Thereafter		1,634
Total minimum payments[(a)]		17,841
Less: Imputed interest		2,022
Present value of total minimum payments[(b)]	$	15,819

[(a)]Total minimum payments exclude executory costs, inclusive of insurance, maintenance, and taxes, of $7.4 million; minimum payments also have not been reduced by sublease rentals of $6.7 million due in the future under noncancelable subleases.
[(b)]$10.9 million is included in Long-term lease liabilities and $4.9 million is included in Accrued royalties, fulfillment, and other current liabilities on the condensed consolidated balance sheets.

As of December 31, 2018, future minimum lease payments were $15.9 million in the aggregate, which consisted of the following: $3.7 million in 2019; $3.0 million in 2020; $2.7 million in 2021; $2.4 million in 2022; $2.3 million in 2023; and $1.6 million thereafter.

Note 15 Commitments and Contingencies

We have been in the past and could become in the future 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.

In 2017, we entered into an arrangement whereby we may be required to guarantee up to $2.8 million of Napster's outstanding indebtedness on their revolving credit facility. At that time and as a result of the guaranty, RealNetworks recognized previously suspended Napster losses up to the full $2.8 million guaranty in our consolidated statement of operations and as a Commitment to Napster in our consolidated balance sheets. Given the controlling interest RealNetworks acquired in Napster in the first quarter of 2019, we have eliminated the previously recorded guaranty from RealNetworks' balance sheet in consolidation. As of the date of this filing, RealNetworks has not been required to pay any portion of this commitment, and, as discussed in Note 10 Notes Payable - Napster, Napster fully repaid this loan balance on April 30, 2019, thus releasing RealNetworks' previously made guaranty.

In March 2016, Napster was notified of a putative consumer class action lawsuit relating to an alleged failure to pay so-called “mechanical royalties” on behalf of the plaintiffs and “other similarly-situated holders of mechanical rights in copyrighted musical works.” On April 7, 2017, the plaintiffs and Napster agreed to settlement terms during a mediation session. The long form Settlement Agreement was executed effective on January 16, 2019. The damages payable under the Settlement Agreement will be calculated on a claims made basis, subject to an overall maximum of $10.0 million. We have not recorded an accrual related to this settlement as of March 31, 2019 as the amount payable is not reasonably estimable. In May 2019, public notice was posted about the settlement informing purported class members that they can make claims or object to the settlement. The claims period ends on December 31, 2019, on which date (or shortly thereafter) Napster expects to know the total amount of damages payable in respect to validly made claims. Damages for valid claims are expected to be paid in the second quarter of 2020.

Note 16 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 the ordinary course of business, Napster enters into agreements with various content providers that guarantee a minimum amount of royalty payments in a given period. These minimum payments are generally based on targets and, based on our historical experience and expectations under relevant contracts, we anticipate that actual royalty accruals and payments will exceed minimum guarantees and, accordingly, we do not maintain accruals for these minimum guarantees.

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 17 Segment Information

We manage our business and report revenue and operating income (loss) in four segments: (1) Consumer Media, which includes licensing of our codec technology and our PC-based RealPlayer products, including RealPlayer Plus and related products; (2) Mobile Services, which includes our SaaS services and our integrated RealTimes® platform which is sold to mobile carriers; (3) Games, which includes all our games-related businesses, including sales of mobile games, games licenses, in-game virtual goods, subscription services, and advertising on games and social network sites; and (4) Napster, which includes our on-demand music streaming and music services.

RealNetworks allocates to its Consumer Media, Mobile Services and Games reportable segments certain corporate expenses which are directly attributable to supporting these businesses, including but not limited to a portion of finance, legal, human resources and headquarters facilities. Remaining expenses, which are not directly attributable to supporting these businesses, are reported as corporate items. These corporate items also include restructuring charges and stock compensation charges. As stated in Note 5 Acquisitions, Napster is operating as an independent company and includes all their corporate expenses in their segment results, and RealNetworks does not allocate any expenses to the Napster segment.

RealNetworks reports four reportable segments based on factors such as how we manage our operations and how the Chief Operating Decision Maker (CODM) reviews results. The CODM 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, in the 10-K.

Segment results for the quarters ended March 31, 2019 and 2018 (in thousands):

Consumer Media	Quarter Ended March 31, 2019	Quarter Ended March 31, 2018
Revenue	$ 2,486	$ 5,483
Cost of revenue	833	993
Gross profit	1,653	4,490
Operating expenses	3,119	3,918
Operating income (loss)	$ (1,466)	$ 572

Mobile Services	Quarter Ended March 31, 2019	Quarter Ended March 31, 2018
Revenue	$ 6,939	$ 8,704
Cost of revenue	2,048	2,316
Gross profit	4,891	6,388
Operating expenses	7,561	7,366
Operating income (loss)	$ (2,670)	$ (978)

Games	Quarter Ended March 31, 2019	Quarter Ended March 31, 2018
Revenue	$ 5,710	$ 5,463
Cost of revenue	1,670	1,817
Gross profit	4,040	3,646
Operating expenses	5,037	4,917
Operating income (loss)	$ (997)	$ (1,271)

Napster	Quarter Ended March 31, 2019	Quarter Ended March 31, 2018
Revenue	$ 24,337	$ —
Cost of revenue	20,396	—
Gross profit	3,941	—
Operating expenses	5,532	—
Operating income (loss)	$ (1,591)	$ —

Corporate	Quarter Ended March 31, 2019	Quarter Ended March 31, 2018
Cost of revenue	$ (77)	$ 10
Operating expenses	4,257	3,267
Operating income (loss)	$ (4,180)	$ (3,277)

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

	Quarter Ended March 31,	
	2019	2018
United States	$ 18,970	$ 11,434
Europe	15,384	3,025
Rest of the World	5,118	5,191
Total net revenue	$ 39,472	$ 19,650

Long-lived assets (consisting of of goodwill, equipment, software, leasehold improvements, operating lease assets, and other intangible assets) by geographic region (in thousands) are as follows:

	March 31, 2019	December 31, 2018
United States	$ 91,750	$ 11,823
Europe	11,146	6,761
Rest of the World	2,170	1,151
Total long-lived assets	$ 105,066	$ 19,735

Note 18 Related Party Transactions

As described in Note 5 Acquisitions, on January 18, 2019, RealNetworks acquired an additional 42% interest in Rhapsody International, Inc., (doing business as Napster), bringing our aggregate ownership interest to 84% of Napster's outstanding equity, thus giving RealNetworks a majority voting interest in Napster. Following this acquisition of a controlling interest, we consolidate Napster's financial results into our financial statements for fiscal periods beginning with our first quarter of 2019. Rhapsody America LLC was initially formed in 2007 as a joint venture between RealNetworks and MTV Networks, a division of Viacom International, Inc., to own and operate a business-to-consumer digital audio music service originally branded as Rhapsody. The service has been significantly expanded and was re-branded in 2016 as Napster.

Following certain restructuring transactions effective March 31, 2010, we began accounting for the investment 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. Although we now consolidate Napster for reporting purposes, our convertible preferred stock and the related rights remain contractually binding instruments between RealNetworks and Napster.

In December 2016, RealNetworks and the other then-owner of 42% of Napster each entered into an agreement to loan up to $5.0 million to Napster for general operating purposes, which loans were fully funded as of the end of January 2017 for an aggregate of $10 million. Included in RealNetworks' January 2019 acquisition of the additional 42% interest in Napster, RealNetworks assumed the seller's $5.0 million note, resulting in RealNetworks holding $10 million of notes receivable from Napster. The terms of the notes were modified subsequent to the original December 2016 execution, including a provision, effective July 2018, that requires repayment at the greater of (a) principal plus accrued interest at an annual rate of 15% or (b) a preference of three times the principal amount. These loans are subordinate to Napster's third party debt, as discussed in Note 10 Notes Payable - Napster.

In each of February 2015 and February 2017, Napster issued warrants to purchase shares of its common stock to each of RealNetworks and the other then-owner of 42% of Napster. The warrants have a 10-year contractual term and were issued as compensation for past services provided by these two significant stockholders of Napster. As part of RealNetworks' January 2019 acquisition of the additional 42% interest in Napster, RealNetworks assumed the warrants held by the seller.

Upon our acquisition of Napster, the notes and warrants were effectively settled and eliminated in our consolidated financial statements as they represented preexisting relationships between RealNetworks and Napster. However, the notes and warrants remain contractually binding instruments between RealNetworks and Napster.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q 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, including our January 18, 2019 acquisition of a controlling interest in Napster, 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 funding or other 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 of Part II "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.

Overview

RealNetworks creates innovative technology products and services that make it easy to connect with and enjoy digital media. We manage our business and report revenue and operating income (loss) in four segments: (1) Consumer Media, (2) Mobile Services, (3) Games, and (4) Napster. See Note 17 Segment Information, and Note 5 Acquisitions to the unaudited condensed consolidated financial statements included in Item 1 of Part I of this Form 10-Q for more information regarding our reportable segments and the first quarter of 2019 acquisition of Napster.

Within our Consumer Media segment, revenue is primarily derived from the software licensing of our video compression, or codec, technology, including our latest technology, RealMedia High Definition, or RMHD. We also generate revenue from the sale of our PC-based RealPlayer products, including RealPlayer Plus and related products. These products and services are delivered directly to consumers and through partners, such as OEMs and mobile device manufacturers.

Our Mobile Services business generates revenue primarily from the sale of subscription services, which includes our messaging platform services and ringback tones, as well as through software licenses for the integration of our RealTimes platform and certain system implementations. We generate a significant portion of our revenue from sales within our Mobile Services business to a few mobile carriers. The loss of these contracts, whether by termination or non-renewal or renegotiation of contract terms that are less favorable to us could result in the loss of future revenues and anticipated profits. Our Mobile Services segment also includes our facial recognition platform, SAFR (Secure, Accurate Facial Recognition), which detects and matches millions of faces by leveraging artificial intelligence-based machine learning.

Our Games business generates revenue primarily through the development, publishing, and distribution of casual games under the GameHouse and Zylom brands. Games are offered via mobile devices, digital downloads, and subscription play. In addition to the sale of individual games and subscription offerings, we also derive revenue from player purchases of in-game virtual goods and from advertising on games sites and social network sites.

As described in Note 5 Acquisitions, RealNetworks acquired an additional 42% interest in Napster on January 18, 2019 resulting in our now having a majority voting interest, owning 84% of Napster's outstanding equity. We are now consolidating Napster's financial results into our financial statements for fiscal periods following the closing of the acquisition, and Napster is reported as a new segment in RealNetworks financial statements and related disclosures for the first quarter of 2019.

Our Napster segment provides music products and services that enable consumers to have access to digital music content from a variety of devices. The Napster 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. Napster currently offers music services worldwide and generates revenue primarily through subscriptions to its music services either directly to consumers or distribution partners. We generate a significant portion of our revenue from sales within our Napster business to a few partners. The loss of these contracts, whether by termination or non-renewal or renegotiation of contract terms that are less favorable to us could result in the loss of future revenues and anticipated profits.

RealNetworks allocates to its Consumer Media, Mobile Services, and Games reportable segments certain corporate expenses which are directly attributable to supporting these businesses, including but not limited to a portion of finance, IT, legal, human resources and headquarters facilities. Remaining expenses, which are not directly attributable to supporting these businesses, are reported as corporate items. These corporate items also can include restructuring charges and stock compensation expense. As stated in Note 5 Acquisitions, Napster is operating as an independent company and their corporate expenses are all included in Napster's segment results, and RealNetworks does not allocate any expenses to the Napster segment.

As of March 31, 2019, we had $36.9 million in unrestricted cash and cash equivalents, compared to $35.6 million as of December 31, 2018. The 2019 increase in cash and cash equivalents compared to the prior year end amount was due to our January 2019 acquisition of Napster, which added $9.9 million of cash, offset by our ongoing cash flows used in operating activities.

Condensed consolidated results of operations were as follows (in thousands):

	Quarter Ended March 31,			
	2019	**2018**	**$ Change**	**% Change**
Total revenue	$ 39,472	$ 19,650	$ 19,822	101 %
Cost of revenue	24,870	5,136	19,734	384 %
Gross profit	14,602	14,514	88	1 %
Gross margin	37%	74%		
Operating expenses	25,506	19,468	6,038	31 %
Operating loss	$ (10,904)	$ (4,954)	$ (5,950)	(120)%

In the first quarter of 2019, our total consolidated revenue increased $19.8 million as compared with the year-earlier period, due to the acquisition of Napster on January 18, 2019, and the resulting consolidation of their results from the acquisition date forward. Napster revenues for the first quarter of 2019 totaled $24.3 million. For the first quarter of 2019 compared to the prior year period, our Games segment revenue increased by $0.2 million, offset by declines in our Consumer Media segment and Mobile Services segment of $3.0 million and $1.8 million, respectively. See below for further discussion of our segment results.

Cost of revenue increased by $19.7 million for the quarter ended March 31, 2019, primarily due to the consolidation of Napster's results from the acquisition date forward. Napster's cost of revenue for the first quarter of 2019 totaled $20.4 million and its gross margin was 16 percent.

Operating expenses increased by $6.0 million in the quarter ended March 31, 2019 as compared with the year-earlier period, primarily due to the consolidation of Napster's results from the acquisition date forward. Napster operating expenses for the first quarter of 2019 totaled $5.5 million, including $0.2 million of acquisition-related costs. Operating expenses within Corporate in the first quarter of 2019 included an additional $0.6 million of acquisition-related costs.

Segment Operating Results

Consumer Media

Consumer Media segment results of operations were as follows (in thousands):

	Quarter Ended March 31,			
	2019	2018	$ Change	% Change
Revenue	$ 2,486	$ 5,483	$ (2,997)	(55)%
Cost of revenue	833	993	(160)	(16)%
Gross profit	1,653	4,490	(2,837)	(63)%
Gross margin	66%	82%		
Operating expenses	3,119	3,918	(799)	(20)%
Operating income (loss)	$ (1,466)	$ 572	$ (2,038)	NM

Total Consumer Media revenue for the quarter ended March 31, 2019 decreased $3.0 million as compared to the same quarter in 2018, due primarily to lower software license revenues of $2.6 million and subscription services revenues of $0.2 million, described more fully below. The overall decrease in revenues was also impacted by lower advertising and other revenues of $0.2 million.

Software License

For our software license revenues, the $2.6 million decrease was primarily due to declining shipments by our customers and the timing of contract renewals.

Subscription Services

For our subscription services revenues, the $0.2 million decrease was primarily due to continuing declines in our legacy subscription products.

Cost of revenue for the quarter ended March 31, 2019 decreased $0.2 million compared with the year-earlier period. This was primarily due to lower bandwidth and license royalty costs.

Operating expenses decreased $0.8 million as compared with the year-earlier period, primarily due to reductions in salaries, benefits, and professional services fees.

Mobile Services

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

	Quarter Ended March 31,			
	2019	2018	$ Change	% Change
Revenue	$ 6,939	$ 8,704	$ (1,765)	(20)%
Cost of revenue	2,048	2,316	(268)	(12)%
Gross profit	4,891	6,388	(1,497)	(23)%
Gross margin	70%	73%		
Operating expenses	7,561	7,366	195	3 %
Operating loss	$ (2,670)	$ (978)	$ (1,692)	(173)%

Total Mobile Services revenue decreased by $1.8 million in the quarter ended March 31, 2019 compared with the prior-year period. The revenue decrease was due to declines of $1.1 million in subscription services revenues and $0.7 million in software license revenues, described more fully below.

Software License

For our software license revenues, the decrease was primarily due to higher revenues recognized in the first quarter of 2018 for our integrated RealTimes products offered to mobile carriers due to the timing of revenue recognition for contract renewal.

Subscription Services

For our subscription services, the decrease was primarily the result of a decrease of $1.3 million in our ringback tones business, partially offset by an increase in our messaging platform business of $0.3 million.

Cost of revenue decreased by $0.3 million in the quarter ended March 31, 2019 compared with the prior-year period, due primarily to reductions in salaries, benefits, and professional services fees.

Operating expenses increased by $0.2 million for the quarter ended March 31, 2019 compared with the year-earlier period primarily due to increased facilities and support services costs.

Games

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

	Quarter Ended March 31,			
	2019	**2018**	**$ Change**	**% Change**
Revenue	$ 5,710	$ 5,463	$ 247	5 %
Cost of revenue	1,670	1,817	(147)	(8)%
Gross profit	4,040	3,646	394	11 %
Gross margin	71%	67%		
Operating expenses	5,037	4,917	120	2 %
Operating loss	$ (997)	$ (1,271)	$ 274	22 %

Total Games revenue increased $0.2 million for the quarter ended March 31, 2019 as compared with the year-earlier period due primarily to increases of $0.6 million in our subscription services and advertising and other revenues, partially offset by a decrease of $0.4 million in product sales revenues, described more fully below.

Subscription Services

Our subscription sales increased $0.3 million as a result of new subscription offerings for our Original Stories.

Product Sales

Lower product sales of $0.4 million compared to the prior-year period was primarily due to a decrease in sales of games, partially offset by in-game purchases, due to a recently launched free to play game which offers advertising in lieu of purchasing the game. This model shifts the revenue from product sales to advertising, as discussed below.

Advertising and Other

Our advertising and other revenues increased $0.3 million as compared to the prior-year period primarily as a result of new initiatives to offer in-game advertising within our free to play and other mobile games.

Cost of revenue decreased $0.1 million in the quarter ended March 31, 2019 when compared with the prior-year period due to lower publisher license and service royalties. This is a result of our April 2018 acquisition of a Netherlands-based game development studio, as we no longer pay royalties to this studio. However, operating expenses relating to the ongoing operation of the studio have been and will continue to be incurred and are now reported within operating expenses, as noted in the following paragraph.

Operating expenses increased $0.1 million in the quarter ended March 31, 2019 when compared with the prior-year period, largely due to salaries, benefits, and professional services fees from increased developer costs, as a result of our acquisition of a Netherlands-based game development studio.

Napster

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

	Quarter Ended March 31,		
	2019	2018	$ Change
Revenue	$ 24,337	$ —	$ 24,337
Cost of revenue	20,396	—	20,396
Gross profit	3,941	—	3,941
Gross margin	16%	—%	
Operating expenses	5,532	—	5,532
Operating loss	$ (1,591)	$ —	$ (1,591)

As described in Note 5 Acquisitions, we acquired control and began consolidating Napster effective January 18, 2019. Our consolidated results include Napster from the acquisition date forward.

Napster's revenues relate to subscription services and include $12.2 million of direct to consumer revenues and $12.1 million of revenues sold through distribution partners. Napster's direct to consumer revenues in the first quarter of 2019 were reduced by $0.6 million of unfavorable impact from the fair value measurement of Napster deferred revenue at the time of acquisition.

Cost of revenues primarily consist of content royalties related to music label and publishing rights for its domestic and international music streaming services. These costs can vary materially from period to period due to the significant judgments, assumptions, and estimates of the amounts to be paid. Napster's cost of revenues for the first quarter of 2019 included $0.3 million of amortization expense related to intangible assets acquired.

Operating expenses primarily include salaries, benefits, and professional services fees. In the first quarter of 2019, Napster's operating expenses included $0.6 million of amortization expense related to intangible assets acquired and $0.2 million of acquisition-related costs.

Corporate

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

	Quarter Ended March 31,			
	2019	2018	$ Change	% Change
Cost of revenue	$ (77)	$ 10	$ (87)	NM
Operating expenses	4,257	3,267	990	30 %
Operating loss	$ (4,180)	$ (3,277)	$ (903)	(28)%

Operating expenses increased by $1.0 million in the quarter ended March 31, 2019 compared with the year-earlier period. The increase was due to higher salaries, benefits, and professional fees primarily related to $0.6 million of costs associated with our acquisition of Napster. Note there are no other costs within Corporate related to our Napster segment.

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, restructuring charges, and lease exit costs. Operating expenses were as follows (in thousands):

	Quarter Ended March 31,			
	2019	2018	$ Change	% Change
Research and development	$ 8,833	$ 7,694	$ 1,139	15 %
Sales and marketing	8,142	5,997	2,145	36 %
General and administrative	8,364	5,601	2,763	49 %
Restructuring and other charges	167	501	(334)	(67)%
Lease exit and related charges	—	(325)	325	(100)%
Total consolidated operating expenses	$ 25,506	$ 19,468	$ 6,038	31 %

Research and development expenses increased by $1.1 million in the quarter ended March 31, 2019 as compared with the year-earlier period, primarily due to the acquisition of Napster on January 18, 2019, and the resulting consolidation of their results from the acquisition date forward. Napster's research and development expenses for the first quarter of 2019 totaled $1.4 million. This increase was partially offset by a decrease in salaries, benefits, and professional services of $0.4 million reflecting our continued cost reduction efforts.

Sales and marketing expenses increased $2.1 million compared with the year-earlier period, primarily due to the acquisition of Napster as discussed above. Napster's sales and marketing expenses for the first quarter of 2019 totaled $2.2 million.

General and administrative expenses increased by $2.8 million in the quarter ended March 31, 2019, compared with the year-earlier period. The increase was primarily due to the acquisition of Napster as discussed above. Napster's general and administrative expenses for the first quarter of 2019 totaled $2.0 million. We also incurred higher general and administrative expenses of $0.8 million primarily due to costs associated with our acquisition of Napster.

Restructuring and other charges consist of costs associated with the ongoing reorganization of our business operations and expense re-alignment efforts. Restructuring expense primarily related to severance costs due to workforce reductions. For additional details on these charges, see Note 11 Restructuring Charges.

Other Income (Expense)

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

	Quarter Ended March 31,		
	2019	2018	$ Change
Interest expense	$ (166)	$ —	$ (166)
Interest income	77	87	(10)
Gain (loss) on equity investment, net	12,338	—	12,338
Other income (expense), net	127	(41)	168
Total other income (expense), net	$ 12,376	$ 46	$ 12,330

Interest expense relates to Napster's notes payable, described in detail in Note 10 Notes Payable - Napster.

Other income (expense), net, for the first quarter of 2019 includes $12.3 million related to RealNetworks' gain on consolidation of Napster, as described in more detail in Note 5 Acquisitions.

Income Taxes

During the quarters ended March 31, 2019 and 2018, we recognized income tax expense of $0.3 million and $0.3 million, respectively, related to U.S. and foreign income taxes.

As of March 31, 2019, RealNetworks has $4.5 million in uncertain tax positions. The increase in uncertain tax position at March 31, 2019 is related to $4.1 million of unrecognized tax positions recorded from the acquisition of Napster on January 18, 2019 as a result of the acquisition of Napster. We do not anticipate that the total amount of unrecognized tax benefits will significantly change within the next twelve months.

The majority of our tax expense is due to income in our foreign jurisdictions and we have not benefitted from losses in the U.S. and certain foreign jurisdictions in the first quarter of 2019. We generate income in a number of foreign jurisdictions, some of which have higher or lower tax rates relative to the U.S. federal statutory rate. Our tax expense could fluctuate significantly on a quarterly basis to the extent income is less than anticipated in countries with lower statutory tax rates and more than anticipated in countries with higher statutory tax rates. For the quarter ended March 31, 2019, decreases in tax expense from income generated in foreign jurisdictions with lower tax rates in comparison to the U.S. federal statutory rate was 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. The effect of differences in foreign tax rates on the Company's tax expense for the first quarter of 2019 was minimal.

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

New Accounting Pronouncements

See Note 2 Recent Accounting Pronouncements, to the unaudited condensed consolidated financial statements included in Item 1 of Part I of this 10-Q.

Liquidity and Capital Resources

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

	March 31, 2019	December 31, 2018
Working capital	$ (30,965)	$ 33,481
Cash, cash equivalents, and short-term investments	36,897	35,585
Restricted cash equivalents	4,045	1,630

The 2019 decrease in working capital from December 31, 2018 was due primarily to the consolidation of Napster, which has a negative working capital position, due in part to its accrued music royalties, which totaled $73.7 million at March 31, 2019.

Cash and cash equivalents, and short-term investments increased slightly in the first quarter of 2019 from December 31, 2018 due to our January 2019 acquisition of Napster, which added $9.9 million of net cash and cash equivalents, offset by our ongoing negative cash flows used in operating activities, which totaled $9.3 million in the first three months of 2019.

The increase in restricted cash equivalents is due to Napster's restricted amounts. See Note 6 Fair Value Measurements for additional details.

The following summarizes cash flow activity (in thousands):

	Three months ended March 31,	
	2019	2018
Cash used in operating activities	$ (9,319)	$ (5,425)
Cash provided by investing activities	11,802	3,915
Cash provided by (used in) financing activities	1,475	(232)

Cash used in operating activities consisted of net income (loss) including noncontrolling interests adjusted for certain non-cash items such as depreciation and amortization, stock-based compensation, gain on equity investment, and the effect of changes in certain operating assets and liabilities.

Cash used in operating activities was $3.9 million higher in the three months ended March 31, 2019 as compared to the same period in 2018. Cash used in operations was higher due to our higher operating loss recorded for the first quarter of 2019 compared to the prior year quarter.

For the three months ended March 31, 2019, cash provided by investing activities of $11.8 million was primarily due to our acquisition of Napster on January 18, 2019. Our initial cash consideration paid at closing of $0.2 million was offset by the cash, cash equivalents and restricted cash on Napster's balance sheet at that date. The increase was offset in part by fixed asset purchases of $0.5 million.

For the three months ended March 31, 2018, cash provided by investing activities of $3.9 million was due to sales and maturities of short-term investments, which totaled $4.2 million. The increase was offset in part by fixed asset purchases of $0.3 million.

Cash provided by financing activities for the three months ended March 31, 2019 was $1.5 million. This cash inflow was primarily due to net proceeds from Napster's borrowing activities of $1.3 million. Napster's borrowings are described in Note 10 Notes Payable - Napster.

Cash used in financing activities for the three months ended March 31, 2018 was $0.2 million. This cash outflow was due mainly to tax payments on shares withheld upon vesting of restricted stock, net of proceeds received from the employee stock purchase plan.

Two customers in our Napster segment accounted for more than 10% of trade accounts receivable as of March 31, 2019, with the customers accounting for 28% and 13% each. Three customers individually comprised more than 10% of trade accounts receivable at December 31, 2018, with the customers accounting for 23%, 11% and 10% each. Two customers in our Napster segment accounted for 14% of consolidated revenue, or $5.5 million, and 12%, or $4.5 million, respectively, during the quarter ended March 31, 2019. One customer in our Mobile Services segment accounted for 11% of consolidated revenue or $2.1 million during the quarter ended March 31, 2018.

While we currently have no planned significant capital expenditures for the remainder of 2019 other than those in the ordinary course of business, we do have contractual commitments for future payments related to office leases.

As discussed in Note 5 Acquisitions, we acquired a controlling interest in Napster on January 18, 2019. We paid initial cash consideration of $0.2 million in the first quarter of 2019 and have accrued $0.8 million as a current liability as of March 31, 2019. We also have recognized a liability for the estimated fair value of $11.6 million for the contingent consideration, with $2.6 million recognized as a current liability and $9.0 million as a long-term liability. As discussed in Note 5 Acquisitions, this fair value amount was estimated using multiple scenarios for each tranche of contingent consideration and then probability weighting each scenario and discounting them to arrive at an estimated fair value. This fair value calculation is directly impacted by the total estimated enterprise value of Napster. After the completion of the measurement period or in conjunction with changes in fair value unrelated to our preliminary estimate of fair value, the contingent consideration will be adjusted quarterly to fair value through earnings. Any future amounts RealNetworks pays for contingent consideration could vary materially from the estimated amounts we have accrued as of March 31, 2019.

We believe that RealNetworks' current unrestricted cash and cash equivalents, will be sufficient to meet anticipated cash needs for working capital and capital expenditures for at least the next 12 months.

Subsequent to quarter end, on April 30, 2019, Napster paid off its Revolver LSA in the amount of $4.9 million. For Napster to meet its future liquidity needs, it will need additional financing to fund its operations and growth. RealNetworks has no contractual or implied legal obligation to provide funding or other financial support to Napster.

In the future, we may seek to raise additional funds through public or private equity financing, or through other sources such as 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 consist of money market mutual funds.

We conduct our operations primarily in three functional currencies: the U.S. dollar, the euro and the Chinese yuan. We currently do not actively hedge 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 March 31, 2019, $22.2 million of the $36.9 million of cash and cash equivalents was held by our foreign subsidiaries.

Off-Balance Sheet Arrangements

We do not maintain accruals associated with certain guarantees, as discussed in Note 16 Guarantees, to the unaudited condensed consolidated financial statements included in Item 1 of Part I of this 10-Q, thus these guarantee obligations constitute off-balance sheet arrangements.

As disclosed in Note 14 Leases, we adopted the new accounting requirement for leases on January 1, 2019 and thus our operating lease obligations are now recorded on our consolidated balance sheet, rather than disclosed as off-balance sheet items.

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;
- Music Royalties;
- Valuation of definite-lived assets and goodwill; and
- Accounting for income taxes.

Revenue Recognition. We recognize revenue from contracts with customers as control of the promised good or service is transferred. Please refer to Note 3 Revenue Recognition in both this 10-Q and our 2018 10-K for further details regarding our recognition policies.

Music Royalties. In certain circumstances, Napster estimates the amounts of royalties payable to record labels, music publishers, or other rights-holders in relation to Napster's use of music content on its music services (both domestic and international). Material differences in these estimates and the actual amounts ultimately determined to be payable may impact the amount and timing of expense in future periods. Napster's license agreements with rights-holders for the content used on its music service are often complex, and the determination of royalty accruals can involve significant judgments, assumptions, and estimates of the amounts to be paid. The variables involved in determining royalty payments or accruals may include the applicable revenue, the type of content used, the country it is used in, the number of plays, the number of subscribers, the rights granted to trial or promotional users, and identification of the appropriate license holder, among other variables. In addition, some rights-holders have allowed the use of their content prior to finalizing the applicable license agreement. In these circumstances, royalties are accrued based on our best estimate of the expected amount.

In certain jurisdictions, rights-holders may have several years to claim royalties for musical compositions, in respect of which ownership has not already been claimed. While Napster bases its estimates on contractual rates, historical experience and on various other assumptions that management believes to be reasonable, actual results may differ materially from these estimates under different assumptions or conditions.

Many of our content license agreements give the rights-holders the right to audit our royalty payments. Given the complexity of the licensing arrangements, any such audit could result in disputes over whether Napster has correctly reported and paid the proper royalties. If such a dispute were to occur, we could be required to pay additional royalties, and the amounts involved could be material.

Napster may occasionally be involved in legal actions or other third-party assertions related to use of content on our platform. These actions might be costly and could adversely impact our financial position, results of operations, or cash flows. Napster records a liability when it is probable that a loss has been incurred and the amount can be reasonably estimated. Determining whether a loss is probable and estimable requires management to use significant judgment. Given the uncertainties associated with any litigation, the actual outcome can be different than our estimates and could adversely affect our results of operations, financial position, and cash flows.

Valuation of Definite-Lived Assets and Goodwill. Assets acquired and liabilities assumed in a business acquisition are measured at fair value under the purchase accounting method and any goodwill is recognized as the excess of the total purchase price over the fair value of assets acquired and liabilities assumed. The fair value estimates are based upon estimates and assumptions relating to future revenues, cash flows, operating expenses and costs of capital. 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 and risk-commensurate discount rates and cost of capital. In addition, the size, scope, and complexity of an acquisition will affect the time it takes to obtain the necessary information to record the acquired assets and liabilities at fair value. It may take up to one year to finalize the initial fair value estimates used in the preliminary purchase accounting. Accordingly, it is reasonably likely that our initial estimates will be subsequently revised, which could affect carrying amounts of goodwill, intangibles, noncontrolling interests, contingent consideration, and potentially other assets and liabilities in our financial statements.

Our definite-lived assets consist primarily of amortizable intangible assets acquired in business combinations, property, plant and equipment, and right-of-use operating lease assets. 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.

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. As part of this test, 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.

The impairment analysis of definite-lived assets and goodwill 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 and goodwill 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 cash flows and related fair 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.

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.

Item 3. 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 Napster's Notes payable. Napster's borrowing arrangements have floating rate interest payments and thus have a degree of interest rate risk, if interest rates increase. Based on Napster's outstanding Notes payable as of March 31, 2019, a hypothetical 10% increase/decrease in interest rates would not increase/decrease our annual interest expense or cash flows by more than a nominal amount.

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.

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 euros, Chinese yuan and Japanese yen. A hypothetical 10% increase or decrease in those currencies relative to the U.S. dollar as of March 31, 2019 would not result in a material impact on our financial position, results of operations or cash flows.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2019. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based upon that evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2019, our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

As disclosed in Note 5 Acquisitions, on January 18, 2019, RealNetworks acquired an additional 42% interest in Napster from its former joint venture partner resulting in RealNetworks having a controlling interest, owning 84% of Napster's outstanding equity. Napster is included in RealNetworks' condensed consolidated financial statements from the date of acquisition in our Form 10-Q filing for the quarter ended March 31, 2019. As of March 31, 2019, our management has not fully assessed Napster's internal controls over financial reporting and will be testing new and revised internal controls for design and operating effectiveness throughout 2019. The Securities and Exchange Commission permits companies to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition, and our management has elected to exclude Napster from our assessment. Napster accounted for approximately 66% of total assets as of March 31, 2019 and approximately 62% of total revenues of the Company for the quarter ended March 31, 2019. We have performed additional analysis and procedures to enable management to conclude that we believe the condensed consolidated financial statements included in this Form 10-Q present fairly, in all material respects, our financial position, results of operations, comprehensive income (loss) and cash flows for the periods presented in conformity with U.S. GAAP.

Except for the change related to Napster, there have been no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the first quarter of 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 15 Commitments and Contingencies, to the unaudited condensed consolidated financial statements included in Item 1 of Part I of this Form 10-Q.

Item 1A. Risk Factors

You should carefully consider the risks described below together with all of the other information included in this Form 10-Q. 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 growth initiatives could take longer than planned, be unsuccessful, or deplete our cash resources, any of which would have a material adverse effect on the performance of our businesses and financial results.

In recent years, we have developed new products and technologies, and funded initiatives, intended to create growth in our businesses, while simultaneously taking steps to reduce costs and increase profitability. These growth initiatives have impacted all segments of our organization, requiring us to allocate limited resources among our diverse business units.

Given the ambitious and significant nature of our growth initiatives, there is substantial risk that we may be unsuccessful in implementing our plans in a timely manner, our cash reserves may be depleted or insufficient to fully implement our plans, our growth initiatives may not gain adequate momentum, or the combination of our growth initiatives and cost reductions may not prove to be profitable. In any such case, our business would suffer, and our operational and financial results would be negatively impacted to a significant degree.

Our 84% equity interest in Napster could result in material negative implications to our financial condition and stock price.

From March 31, 2010, when we completed the restructuring of our digital audio music service joint venture, Rhapsody America LLC, now doing business under the Napster brand, until January 18, 2019, we did not have a majority voting interest in Napster. During that period, we accounted for Napster using the equity method of accounting and disclosed only strategic, business and financial information regarding Napster in our financial statements and disclosures, in accordance with accounting principles generally accepted in the United States ("GAAP"). Historically, Napster generated significant accounting losses and, applying the equity method of accounting, we recognized our share of such losses on our investment. As we had no implicit or explicit commitment to provide future financial support to Napster, we did not record any further share of Napster losses that would reduce our carrying value of Napster below zero.

On January 18, 2019, we acquired an additional 42% of the outstanding equity of Rhapsody International, Inc., which we refer to as Napster as noted above, from a third party in a distressed sale resulting in our ownership of an aggregate of 84% of Napster's outstanding stock. See Note 5 Acquisitions, for additional information. We also now have the right to nominate directors constituting a majority of the Napster board of directors. Accordingly, although we have no legal or constructive obligation to fund Napster losses and it is our intention to have Napster continue to operate as an independent company, RealNetworks has a majority voting interest in Napster and consolidates Napster's financial results into our financial statements for fiscal periods following the closing of the acquisition.

Due to our majority voting interest and the consolidation of Napster's results and financial position with ours, Napster's current liabilities are included in RealNetworks' consolidated balance sheet, including accrued but unbilled music royalties related to past services, the ultimate payment of which is uncertain. These liabilities, although not a legal or constructive obligation of RealNetworks, result in consolidated working capital being negative, which causes management to consider whether liquidity risks exist. While we believe that these liabilities are separate obligations of Napster, in the remote event that any such liquidity issues become significant or are deemed material to our consolidated financial statements, there could be material negative implications to our financial condition and the trading price of our stock.

As discussed in Note 5 Acquisitions, under the acquisition method of accounting, the purchase price is allocated to the assets acquired and the liabilities assumed based on their estimated fair values. The estimated fair values of the assets and liabilities, as well as the contingent consideration and noncontrolling interests, all involve the application of judgments and estimates, including but not limited to, estimation of expected future cash flows and related discount rates. The purchase price allocation is preliminary and is subject to change prior to finalization, which may result from additional information becoming available and additional analyses being performed on these acquired assets and assumed liabilities. The final purchase price allocation could result in material differences, which could have a material impact on our operating results and financial condition.

In addition, now that we are consolidating Napster's quarterly financial results beginning with our first quarter of 2019, we will need to receive Napster's quarterly financial statements and related information in order to timely prepare our quarterly and annual consolidated financial statements and disclosures in our quarterly reports on Form 10-Q and annual reports on Form 10-K. Any failure in receiving Napster's financial statements and related information in a timely and materially accurate manner could cause our reports to be filed in an untimely and/or inaccurate manner, which would preclude us from utilizing certain registration statements and could negatively impact our stock price. See Note 5 Acquisitions, for further information related to Napster.

We need to successfully monetize our new products and services in order to sustain and grow our businesses, and manage our cash resources.

In order to sustain our current level of business and to implement our growth initiatives, we must successfully monetize our new products and services, including through existing and new relationships with distribution partners. Our digital media products and services must be attractive and useful to distribution partners and end users. The successful acceptance and monetization of these products and services, therefore, is subject to unpredictable and volatile factors beyond our control, including end-user preferences, competing products and services, the rapid pace of change in the market and the effectiveness of our distribution channels. Any failure by us to timely and accurately anticipate consumers' changing needs and preferences, emerging technological trends and data privacy norms, or changes in the competitive or regulatory landscape for our products and services could result in a failure to monetize our new products or the loss of market opportunities.

Moreover, in order to grow our businesses, 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 or have introduced will meet the demands of the relevant market. We may not realize a sufficient return, or may experience losses, on these investments, thereby straining our limited cash resources and negatively affecting our ability to pursue other growth or strategic opportunities.

Sustaining and growing our businesses, and managing our cash resources, are subject to these risks inherent in developing, distributing and monetizing our new products and services. Our failure to manage these risks could materially impair our operations and financial results.

Furthermore, our 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 constrain our growth plans and cash resources.

Our businesses, including in connection with our growth initiatives, face substantial competitive challenges that may impair our success, thus negatively impacting our future growth.

Our digital media products and services, including legacy and products/services central to our growth initiatives, face a wide variety of competitors, many of which have longer operating histories, greater name or brand recognition, more employees and significantly greater resources than we do. In addition, current and potential competitors may include relatively new businesses that develop or use innovative technologies, products or features that could disrupt the market for technologies, products or features we currently market or are seeking to develop. In attempting to compete with any or all of these competitors, we may experience some or all of 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;
- inability to meet demands for more rapid sales or development 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.

Our Consumer Media technologies for media playback and production (RealPlayer, RealMedia VB and RealMedia HD) compete with alternative media playback technologies and audio and video content formats that have obtained broad market penetration. RealMedia VB and RealMedia HD are codecs, technology that enables compression and decompression of the media content in a (usually proprietary) format. We license our codec technology primarily to computer, smartphone and other mobile device manufacturers, and also to other partners that can support our efforts to build a strong ecosystem, like content providers and integrated circuit developers. To compete effectively, codec technologies must appeal to, and be adopted for use by, a wide range of parties: producers and providers of media content, consumers of media content, and device manufacturers who pre-load codec technologies into their devices. Our growth in this business is dependent on the successful promotion and adoption of our codec technologies to a wide and diverse target market, which is a complex and highly uncertain undertaking. If we are unable to compete successfully, our Consumer Media business could continue to decline.

The market for our Mobile Services business is highly competitive and continues to rapidly evolve. Our SaaS services face competition from a proliferation of applications and services, many of which carriers can deploy or offer to their subscribers, or which consumers can acquire independently of their carrier. We expect pricing pressure in this business to continue to materially impact our operating results in this business.

The branded services in our Games business compete with other developers, aggregators and distributors of mobile, online, and downloadable games. Our competitors vary in size and capabilities, some of which have high volume distribution channels and greater financial resources than we do; while others may be smaller and more able to quickly or efficiently adjust to market conditions. 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. We expect competition to continue to intensify in this market. Our games development studios compete primarily with other developers of mobile, online, and downloadable 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 mobile, in order to maintain our competitive position and to grow the business.

The distribution and license of our technology products and services are governed by contracts with third parties, the terms of which subject us to significant risks that could negatively impact our revenue, expenses and assumption of liability related to such contracts.

In our Consumer Media and Mobile Services segments, we distribute and license most of our technology products and services pursuant to contracts with third parties, such as mobile carriers and their partners, online service providers, and OEMs and device manufacturers, many of whom may have stronger negotiating leverage due to their size and reach. These contracts govern the calculation of revenue generated and expenses incurred, how we recognize revenue and expenses in our financial statements, and the allocation of risk and liabilities arising from the product or service or distribution thereof. Terms impacting revenue, over which we may have limited if any control, may involve revenue sharing arrangements, end user pricing, usage levels, and exclusivity, all of which significantly affect the level of revenue that we may realize from the relationship. Moreover, contract terms around marketing and promotion of our products and other expense allocation could result in us bearing higher expenses or achieving weaker performance than we had anticipated from the relationship.

In addition, although our contracts with third parties are typically for a fixed duration, they could be terminated early; and they may be renegotiated on less favorable terms or may not be renewed at all by the other party. We must, therefore, seek additional contracts with third parties on an ongoing basis to sustain and grow our business. We expect to face continuing and increased competition for the technology products and services we provide, and there is no assurance that the parties with which we currently have contracts will continue or extend current contracts on the same or more favorable terms, or that we will obtain alternative or additional contracts for our technology products and services. The loss of existing contracts, the failure to enter new contracts, or the deterioration of terms in our contracts with third parties could materially harm our operating results and financial condition.

Nearly all of our contracts in which we provide to another party services or rights to use our technology include some form of obligation by us to indemnify the other party 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. We have in the past incurred costs to defend and settle such claims. Claims against which we may be obligated to defend others pursuant to our contracts could in the future result in payments that could materially harm our business and financial results.

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 although, more recently, has been in decline. As a result of the rapidly changing markets in which we compete, and restructuring, impairment and other one-time events specific to us, our operating results may fluctuate or continue to decline from period to period, which may contribute to further volatility or continued weakness of our stock price. Moreover, the general difficulty in forecasting our operating results and metrics, especially when factoring in our growth initiatives, could result in actual results that differ materially from expected results, again causing further volatility and continued weakness in our stock price.

The difficulty in forecasting our operating results may also cause over or under investment in certain growth initiatives, as such investment is often planned based on expected financial results, thus causing more severe fluctuations in operating results and, likely, further volatility in our stock price.

Any impairment to our goodwill and definite-lived assets could result in a material charge to our earnings.

In accordance with GAAP, we test goodwill for possible impairment on an annual basis 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 fair 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 material negative, and unpredicted, impact on our financial results. We recorded goodwill and definite-lived intangibles upon the acquisition of Napster that totaled $72.2 million on the acquisition date. Note 5 Acquisitions, for further information related to Napster. The total carrying value of our goodwill and definite-lived intangible assets as of March 31, 2019 was $88.1 million.

Continued loss of revenue from our subscription services may continue to harm our operating results.

Our operating results have been and will continue to be adversely impacted by the loss of subscription revenue related to our more traditional products and services. Subscribers 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 continued to decline over several periods, due to changes in consumer preferences and changes on our part to focus on other products and services we offer, and we expect this trend to continue.

Government regulation of the Internet, facial recognition technology, and other related technologies 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. For example, the European Union's General Data Protection Regulation (GDPR), effective in May 2018, created a variety of new compliance obligations, with significant penalties for noncompliance. We cannot provide assurance that the changes that we have adopted to our business practices will be compliant or that new compliance frameworks such as this will not have a negative impact on our financial results.

In addition, through the operation of our SAFR product, we are subject to regulations and laws generally and specifically applicable to the provision of facial recognition technology. New laws and regulations are under discussion and those that exist are untested, thus we cannot guarantee that we have been or will be fully compliant in every jurisdiction.

Future regulations, or changes in laws and regulations or their existing interpretations or applications, could require us to further 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. We cannot provide assurance that governmental agencies will not bring future claims regarding our marketing, or consumer services or other practices.

We face financial and operational risks associated with doing business in non-U.S. jurisdictions and operating a global business, that have in the past and could in the future have a material adverse impact on our business, financial condition and results of operations.

A material portion of our revenue is derived from sales outside of the U.S. and most of our employees are located outside of the U.S. Consequently, our business and operations depend significantly on global and national economic conditions and on applicable trade regulations and tariffs. The growth of our business is also dependent in part on successfully managing our international operations. Our non-U.S. sales, purchases and operations are subject to risks inherent in conducting business abroad, many of which are outside our control, including the following:

- periodic local or geographic economic downturns and unstable political conditions;
- price and currency exchange controls;
- fluctuation in the relative values of currencies;
- difficulty in repatriating money, whether as a result of tax laws or otherwise;
- compliance with current and changing tax laws, and the coordination of compliance with U.S. tax laws and the laws of any of the jurisdictions in which we do business;
- difficulties protecting intellectual property;
- compliance with labor laws and other laws governing employees;
- local labor disputes;
- changes in trading policies, regulatory requirements, tariffs and other barriers, or the termination or renegotiation of existing trade agreements;
- impact of changes in immigration or other policies impacting our ability to attract, hire, and retain key talent; and
- difficulties in managing a global enterprise, including staffing, collecting accounts receivable, and managing suppliers, distributors and representatives.

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, mobile telecommunication carriers and other business partners may reduce their business or advertising spending with us or for our products and services they distribute to users 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 a relevant 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.

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 typically 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, 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.

Our business is conducted in accordance with existing international trade relationships, and trade laws and regulations. Changes in geopolitical relationships and laws or policies governing the terms of foreign trade, such as the recent rise in protectionist politics and economic nationalism, could create uncertainty regarding our ability to operate and conduct commercial relationships in affected jurisdictions, which could have a material adverse effect on our business and financial results. Additionally, our global operations may also be adversely affected by political events, domestic or international terrorist events and hostilities or complications due to natural or human-caused disasters. These uncertainties could have a material adverse effect on the continuity of our business and our results of operations and financial condition.

The 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, and we cannot provide assurance that we will be able to retain such executives and employees in the future. Executive-level turnover, as we have experienced in the past and could experience in the future, could impact our ability to retain key executives and employees, which could then harm our business and operations to the extent there is customer or employee uncertainty arising from any such transition.

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. Changes in immigration or other policies in the U.S. or other jurisdictions that make it more difficult to hire and retain key talent, or to assign individuals to any of our locations as needed to meet business needs, could adversely affect our ability to attract key talent or deploy individuals as needed, and thereby adversely affect our business and financial results. 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.

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. Most recently, our January 18, 2019 acquisition of a controlling interest in Napster represents a significant acquisition for RealNetworks. Although Napster will continue to operate independently and its business will not be integrated into our businesses, we still face transaction-related costs and risks related to the acquisition.

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 material negative impact on our future operating results. In compliance with GAAP, we evaluate these assets for impairment at least annually. Factors that may be considered a change in circumstances, indicating that our goodwill 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 materially 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;
- assumption of known and unknown liabilities of the acquired company, including intellectual property claims; and
- potential impacts to our system of internal controls and disclosure controls and procedures.

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, services and technology, or effectively prevent misappropriation of our technology.

From time to time we receive claims and inquiries from third parties alleging that our technology used in our business may infringe the third parties' proprietary rights. These claims, even if not meritorious, could force us to make significant investments of time, attention and money in defense, and give rise to monetary damages, penalties or injunctive relief against us. We may be forced to litigate, to enforce or defend our patents, trademarks or other intellectual property rights, or to determine the validity and scope of other parties' proprietary rights in intellectual property. To resolve or avoid such disputes, we may also be forced to enter into royalty or licensing agreements on unfavorable terms or redesign our product features, services and technology to avoid actual or claimed infringement of misappropriation or technology. Any such dispute would likely be costly and distract our management, and the outcome of any such dispute (such as additional licensing arrangements or redesign efforts) could fail to improve our business prospects or otherwise harm our business or financial results.

Nearly all of our contracts by which we provide to another party services or rights to use our technology include some form of obligation by us to indemnify the other party 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. Also, in 2012 we sold most of our patents, including patents that covered streaming media, to Intel Corporation, in a contract by which we agreed to indemnify Intel Corporation for certain third-party infringement claims against these patents up to the purchase price we received in the sale. Claims against which we may be obligated to defend others pursuant to our contracts expose us to the same risks and adverse consequences described above regarding claims we may receive directly alleging that our trademarks or technology used in our business may infringe a third party's proprietary rights.

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. We also routinely receive challenges to our trademarks and other proprietary intellectual property that we are using in our business activities. We are likely to continue to receive claims of third parties against us, alleging contract breaches, infringement of copyrights or patents, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition or violations of privacy rights.

Our business and operating results will suffer and we may be subject to market risk and legal liability 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 and those of our service providers. A significant or repeated reduction in the performance, security or availability of our information systems and network infrastructure or that of our service providers could harm our ability to conduct our business, and harm our reputation and ability to attract and retain users, customers, advertisers and content providers. Many of our products are interactive Internet applications that by their very nature require communication between a client and server to operate.

We sell many of our products and services through online sales transactions directly with consumers, and their credit card information is collected and stored by our payment processors. The systems of our third party service providers 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, third party payment providers, and server products. A security breach that leads to disclosure of consumer account information, or any failure by us to comply with our posted privacy policy or existing or new privacy legislation, could harm our reputation, impact the market for our products and services, or subject us to litigation. 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 a failure to adequately maintain and enhance these systems and networks, natural disasters and similar events, power failures, intentional actions to disrupt systems and networks and many other causes. 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.

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 collect transactional taxes and we believe we are compliant and current in all jurisdictions where 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.

Changes in accounting standards and subjective assumptions, estimates, and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

We prepare our financial statements in conformity with GAAP. These accounting principles are subject to interpretation or changes by the Financial Accounting Standards Board ("FASB") and the SEC, and new accounting pronouncements and varying interpretations of accounting standards and practices have occurred in the past and are expected to occur in the future. Moreover, our financial statements require the application of judgments and estimates regarding a wide range of matters that are relevant to our business, such as revenue recognition, asset impairment and fair value determinations, the acquisition method of accounting and its related estimated fair value amounts, stock-based compensation, music publisher and royalty accruals, and intangible asset valuations. Changes in accounting standards or practices, or in our judgments and estimates underlying accounting standards and practices, could harm our operating results and/or financial condition. An example of a new accounting pronouncement is the new lease accounting guidance. As discussed in Note 14 to the accompanying notes to the condensed consolidated financial statements, this new guidance requires us to record lease assets and lease liabilities on the balance sheet, which previously were off-balance sheet obligations subject to disclosure but not recognition. Changes to existing accounting rules or to our judgments and estimates underlying those rules could materially impact our reported operating results and financial condition.

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.

Our Chairman of the Board and Chief Executive Officer beneficially owns approximately 37% of our stock, which gives him significant control over certain major decisions on which our shareholders may vote or which may discourage an acquisition of us.

Robert Glaser, our Chairman of the Board and Chief Executive Officer, beneficially owns approximately 37% 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 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 a 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, amended in April 2016 and February 2018, and again amended and restated in December 2018. The plan provides that shares of our common stock have associated preferred stock purchase rights, the exercise of which would make the acquisition of RealNetworks by a third party more expensive to that party, having 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.

Our recent acquisition of a majority stake in Napster subjects our consolidated financial condition to new risks and uncertainties, including the following:

Napster's financial results and growth are subject to risks involving revenue concentration, strategic focus, and market competition.

In recent years, Napster's business has shifted from a predominant reliance on a direct to consumer subscription model to delivering its music streaming content to users through business partners. With this shift in strategy, Napster's revenue has become concentrated among fewer partners, its sales cycle has become longer and more complex, and its competitive landscape has shifted. All of these factors contribute to risks and uncertainties that could impair the implementation of Napster's growth strategy thus causing declines in Napster's revenue and gross margin. Any such declines would negatively impact our consolidated financial results.

As Napster's direct to consumer subscription base declines due to intense competition in the music streaming market, its growth has become dependent on successful implementation of its platform-as-a-service strategy. Reliance on fewer key partnerships brings risk to Napster's revenue base, and developing relationships with distribution partners requires a significant investment of time and resources, with partnerships taking longer to execute than anticipated and terms becoming increasingly complex as negotiations continue. The result is a higher degree of risk in Napster's revenue base, compressed margins, and more uncertainty in its strategy.

Napster's access to content and dependence on third-party licenses cause substantial risk and uncertainty to its business and could, therefore, harm our financial results.

Napster's business relies on its ability to access content in a cost-efficient and dependable manner. To secure the rights necessary to stream music to its users, Napster must obtain licenses from record labels, aggregators, artists, publishers, performing rights organizations, collecting societies, and other copyrights owners and their agents. These rights holders, to the extent that Napster is able to identify them, possess different levels of bargaining power, require payment by Napster of varying royalty rates, and may or may not continue to make licenses available to Napster. Uncertainty with regard to, and any significant changes in, royalty rates, content availability, or Napster's ability to identify and negotiate with these rights holders could have a material adverse effect on Napster's revenue, profitability, and ability to provide its services. This, in turn, could harm our financial condition and stock price.

Related to Napster's ability to access the content necessary to provide its streaming services is its dependence on third-party licenses, including the major record labels that hold the rights to stream a significant number of sound recordings. Specifically, three major labels dominate the market, and the loss of access to content controlled by any one of these labels would materially limit Napster's offering, which would likely result in the loss of users, through both consumer subscriptions and business partnerships. Any such loss could materially impact Napster's revenue and cause negative implications to our financial results.

The various complexities involved in Napster's music royalty accrual could negatively impact our financial results.

As is common in the music streaming industry, Napster's ability to determine and appropriately accrue music royalty liabilities involves a significant degree of risk and uncertainty. This accrual requires, among other things, identification of rights holders, application of statutory and contractual royalty rates, contractual terms such as advances and minimum guarantees, estimation of market share, user information and geographies, and a significant degree of judgment. Also, in certain jurisdictions, rights holders may have several years to claim royalties for musical compositions, in respect of which ownership has not already been claimed. While Napster bases its estimates on contractual rates, historical experience and on various other assumptions that management believes to be reasonable, actual results may differ materially from these estimates under different assumptions or conditions. The complexity, subjectivity, and variability around Napster's royalty accrual could result in actual royalty costs exceeding amounts accrued, negatively impacting Napster's profitability and our financial results.

Also common in the industry are royalty audits, lawsuits filed by rights holders, and other third-party assertions related to use of content on our platform. Napster has been the target of these types of actions in the past and expects to continue to be in the future. These matters create uncertainty, are costly, and can require a significant amount of management's attention. Moreover, negotiations and disclosures related to these types of matters and disputes can cause damage to key business relationships, which could materially harm Napster's business and prospects, thus impairing our own.

Underlying the complexity and risk involved in Napster's ability to determine its music royalty liabilities, is the reliability of its systems of internal control and disclosure controls and procedures. We cannot provide assurance that these systems are or will continue to be effective. Although a subsidiary of ours, Napster is a privately held company that has not historically been subject to public reporting requirements or the related scrutiny. In the event that Napster's system of internal controls, particularly relating to its music royalty accrual, is found to be ineffective, it would likely have significant negative implications to Napster's financial results and, therefore, to ours, and could be implicated in our required testing of internal controls pursuant to the Sarbanes-Oxley Act of 2002.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) Not applicable

Item 3. Default Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

See Index to Exhibits below.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-Q Report to be signed on its behalf by the undersigned, thereunto duly authorized.

REALNETWORKS, INC.

By: /s/ Cary Baker

Cary Baker

Title: **Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)**

Dated: May 8, 2019

INDEX TO EXHIBITS

Exhibit Number	Description
2.1	Purchase Agreement dated as of January 18, 2019, by and between RealNetworks Digital Music of California, Inc., a California corporation (Buyer) and Rhapsody Applebee, LLC, a Delaware limited liability company (Seller)
31.1	Certification of Robert Glaser, Chairman and Chief Executive Officer of RealNetworks, Inc., pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Cary Baker, Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks, Inc., pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Robert Glaser, Chairman and Chief Executive Officer of RealNetworks, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Cary Baker, Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks, Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

PURCHASE AGREEMENT

This Purchase Agreement (this "**Agreement**"), dated as of January 18, 2019, is entered into by and between RealNetworks Digital Music of California, Inc., a California corporation ("**Buyer**") and Rhapsody Applebee, LLC, a Delaware limited liability company ("**Seller**"). Capitalized terms used in this Agreement have the meanings given to such terms herein.

RECITALS

WHEREAS, Seller is the owner of 47,500,000 shares of Class A Common Stock (the "**Stock**") in Rhapsody International, Inc., a Delaware corporation (the "**Company**");

WHEREAS, Seller acquired 4,125,000 warrants to acquire Class B stock of the Company (the "**Warrants**") pursuant to a Warrant to Purchase Class B Common Stock of Rhapsody International, Inc. issued February 10, 2015 (as amended "**Warrant Agreement**") and made a loan (the "**Loan**") to the Company in the original principal amount of up to $5,000,000 as now evidenced by a Second Lien Secured Subordinated Promissory Note dated as of December 7, 2016 (as amended, the "**Note**") and the security granted by the Company with respect thereto (the "**Note Security**");

WHEREAS, Buyer is also a shareholder of and has certain rights with respect to the Company;

WHEREAS, RealNetworks, Inc., a Washington corporation ("**Real**") is the sole shareholder of Buyer;

WHEREAS, Seller is subject to restrictions imposed by the U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") as the Seller is believed to be owned by the Renova Group, which on April 6, 2018, was named as a Specially Designated National pursuant to Executive Order 13662, namely in that the Seller is a blocked person pursuant to OFAC's 50% rule;

WHEREAS, under License No. UKRAINE-EO13662-2018-354209-1from OFAC issued August 10, 2018, Real and the Company were authorized to engage in all activities necessary and ordinarily incident to negotiate with the Renova Group and Viktor Vekselberg, persons whose property and interests in property are blocked pursuant to the Ukraine-Related Sanctions Regulations, 31 C.F.R. Part 589, regarding a potential purchase of shares in the Company from Seller (the "**Original License**");

WHEREAS, Buyer has sought and obtained License No. LICENSE No. UKRAINE-EO13662-2018-354209-2 issued December 18, 2018 by OFAC to conclude a purchase of all interests of Seller in the Company substantially in accordance with this Agreement (the "**Transaction License**");

WHEREAS, Buyer acknowledges that the application Buyer submitted in order to obtain, and which is incorporated by reference into, the Transaction License, incorrectly reflects

US VC Partners Management LLC d/b/a Columbus Nova Technology Partners ("**CN Manager**") as the sole owner of Seller, and incorrectly asserts that CN Manager is owned indirectly by the Renova Group;

WHEREAS, Seller also wishes OFAC to permit Buyer to pay $800,000 of the Purchase Price to CN Manager for accrued management fees rather than for such payment to go to a Blocked Account (as hereinafter defined);

WHEREAS, subject to the terms of this Agreement, the Buyer is willing to use reasonable best efforts to correct the above mentioned error and to seek permission from OFAC to pay $800,000 of the Purchase Price to CN Manager for management fees;

WHEREAS, the parties agree that correction of the above mentioned error is not necessary to effect the closing described herein; and

WHEREAS, subject to the terms of this Agreement, and pursuant and subject to the Transaction License, Seller wishes to sell and Buyer wishes to purchase all of Seller's right, title and interest in or relating to the Company (collectively, the "**Interests**") including without limitation: (a) the Stock; (b) the Warrants; (c) the Note and the Note Security; and (d) all other rights of Seller relating to the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

PURCHASE AND SALE

Section 1.01 Purchase and Sale. Subject to the terms and conditions set forth herein, at the Closing (as defined in Section 2.01), Seller shall sell to Buyer, and Buyer shall purchase from Seller, the Interests, free and clear of any mortgage, pledge, lien, charge, security interest, claim, community property interest, option, equitable interest, restriction of any kind (including any restriction on use, voting, transfer, receipt of income, or exercise of any other ownership attribute), or other encumbrance (each, an "**Encumbrance**"), for the consideration specified in Section 1.03.

Section 1.02 Blocked Account. All payments of Purchase Price shall be subject to compliance with the OFAC rules and regulations – including specific licenses granted by OFAC – and other applicable Law. Without limitation, except as provided in Sections 1.03(a)(i) and (ii), all payments made to Seller shall be made to a Blocked Account. As used herein, "**Blocked Account**" means a segregated interest-bearing account held at a U.S. financial institution, which holds the Seller's property until the Seller is no longer a blocked person or the Seller obtains an OFAC license authorizing the unblocking of the Blocked Account. "**Law**" means any statute, law, ordinance, regulation, rule, code, order, constitution, treaty, common law, judgment, decree, other requirement or rule of law of any Governmental Authority; and "**Governmental**

Authority" means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

Section 1.03 Purchase Price. The aggregate purchase price for the Interests (the "**Purchase Price**") consists of the Tranche 1 Purchase Price and the Contingent Purchase Price consisting of the Tranche 2 Purchase Price and the Tranche 3 Purchase Price.

(a) The Tranche 1 purchase price (the "**Tranche 1 Purchase Price**") is $15,000,000 payable as follows:

(i) $200,000 at Closing to be paid to Latham & Watkins;

(ii) $800,000 to be paid upon the earlier of (x) 5 days after receipt by Buyer of the Payment Authorization, (y) 90 days after the end of the US Government shutdown, or (z) upon instruction by Seller that the funds should be remitted into a Blocked Account. "**Payment Authorization**" means written authorization or approval by OFAC allowing Buyer to make the $800,000 payment directly to CN Manager and not to a Blocked Account. If Buyer shall timely receive the Payment Authorization, Buyer shall make the $800,000 payment directly to CN Manager. Otherwise the payment shall be made to a Blocked Account;

(iii) The lesser of $2,800,000 or the remaining unpaid Tranche 1 Purchase Price divided by the number of years remaining between each anniversary and the fifth anniversary of the Closing until the Tranche 1 Purchase Price has been paid in full; provided, that, any remaining unpaid portion of the Tranche 1 Purchase Price shall be paid in full no later than the fifth anniversary of the Closing. No interest shall be due with respect to any portion of the Tranche 1 Purchase Price; and

(iv) Notwithstanding the above, if following the Closing Buyer shall sell the Stock in whole or in part, payment of the Tranche 1 Purchase Price shall be accelerated such that Buyer shall pay to Seller the difference, if any, between the amount (net of transaction costs) actually paid to and received by Buyer from the sale of the Stock in whole or in part, less the portions of the Tranche 1 Purchase Price already paid by Buyer to Seller, up to the total of the Tranche 1 Purchase Price. Further, in no event shall the obligations of Buyer to pay the Purchase Price exceed the proceeds payable to Buyer from the Interests.

(b) Seller may be entitled to receive additional payments based on Eligible Net Proceeds from a Liquidity Event (as such terms are defined below). The contingent payments (the "**Contingent Purchase Price**") consist of the Tranche 2 Purchase Price and the Tranche 3 Purchase Price. The Contingent Purchase Price shall be paid if at all only from Eligible Net Proceeds arising from a Liquidity Event provided that if the Eligible Net Proceeds shall include in whole or in part the payment of non-cash consideration including without limitation securities (such as shares in a privately held buyer, shares in a publicly traded company, etc.) or payments over time (such as payments under notes, earn-outs, release of escrows, etc.), then the applicable Contingent Purchase Price shall be paid based on a ratio reflecting the cash and non-cash consideration, with the portion of the Contingent Purchase Price to be paid with respect to the non-cash portion due only when such non-cash consideration is actually converted by Buyer into cash. By way of example, if the consideration shall include shares or a note, the payment of the Contingent Purchase Price shall be due only when such shares are converted by Buyer into cash or when the note is paid in cash to Buyer. Further:

(i) "**Liquidity Event**" means: (a) a voluntary or involuntary liquidation or dissolution of the Company; (b) a Deemed Liquidation Event as defined in the Amended and Restated Certificate of Incorporation of Rhapsody International, Inc. filed February 13, 2013 (the "**Charter**") or (c) any sale by Buyer of the Stock.

(ii) "**Eligible Net Proceeds**" means proceeds from a Liquidity Event actually paid to Buyer, with and only with respect to the Stock and not with respect to any other portion of the Interests or any other interests Buyer may have in the Company, less a value hurdle (subject to reduction in accordance with subclause (f) below, the "**Equity Hurdle**") equal to $25,000,000. As an example, if Buyer receives $25,000,000 or less with respect to the sale of the Stock, Eligible Net Proceeds would be $0; if Buyer receives $45,000,000 with respect to the sale of the Stock, the Eligible Net Proceeds would be $20,000,000. In addition, there shall be a reduction in Eligible Net Proceeds for: (a) estimated taxes based on the highest maximum combined marginal federal, state and local income tax rates applicable to Buyer; and (b) all transaction-related expenses incurred by or imposed upon Buyer.

(c) If and only if there is a Liquidity Event within five years from Closing, Seller shall be entitled to an additional payment of Eligible Net Proceeds of up to a maximum of $15,000,000 (the "**Tranche 2 Purchase Price**").

(d) If and only if there is a Liquidity Event within 5 years from Closing, Seller shall be entitled to an additional payment of 50% of Eligible Net Proceeds in excess of the Tranche 2 Purchase Price, up to a maximum of $10,000,000 (the "**Tranche 3 Purchase Price**").

(e) Except as set forth in subclause (f) below, in the event that within five years from Closing in a single transaction or related series of transaction there is a Liquidity Event resulting in a sale by Buyer of some or all of the Voting Stock (as defined in that certain Amended and Restated Stockholder Agreement dated November 30, 2011 (as amended, the "**Stockholder Agreement**")) held by Buyer (an "**Eligible Sale Transaction**"), then in connection with such Eligible Sale Transaction Buyer shall sell a pro rata portion of the Stock based on the ratio of the Stock held by Buyer to all of the Voting Stock held by Buyer. By way of example, if the Stock constitutes 50% of the outstanding Voting Stock held by Buyer, then Buyer shall sell in such Eligible Sale Transaction 50% of the Stock. If the Stock constitutes 20% of the outstanding Voting Stock held by Buyer, then Buyer shall sell 20% of the Stock in such Eligible Sale Transaction. The price and terms obtained by Buyer for the Stock in an Eligible Sale Transaction shall be final and binding on Seller.

(f) If an Eligible Sale Transaction shall result in Buyer selling 50% or more of the total Voting Stock held by Buyer, Buyer shall have the option to either sell a pro rata portion of the Stock in accordance with subclause (e) above or all of the Stock; provided, that, if Buyer elects to sell in such Eligible Sale Transaction only the Stock, the Equity Hurdle shall be reduced from $25,000,000 to $5,000,000 and Seller shall be entitled to 50% of Eligible Net Proceeds up to the Tranche 2 Purchase Price and Tranche 3 Purchase Price. For example, if all of the Stock is sold for $10,000,000, Seller shall be entitled to $2,500,000 of the Tranche 2 Purchase Price; if all of the Stock is sold for $35,000,000, Seller shall be entitled to $15,000,000 of the Tranche 2 Purchase Price; and if all of the Stock is sold for greater than $55,000,000, Seller shall be entitled to $25,000,000, the maximum aggregate Tranche 2 Purchase Price and Tranche 3 Purchase Price.

(g) Nothing herein shall affect the rights of the holders of Preferred Stock (as defined in the Charter) to the liquidation preference set forth under Section 3(c) of Article IV of the Charter, to the extent applicable. Without limitation, in the event of an Eligible Sale Transaction whereby the Preferred Stock would be sold at a value at or below the liquidation preference in Section 3(c) of Article IV of the Charter, Buyer shall have no obligation to sell any of the Stock in such transaction.

(h) The Purchase Price is an unsecured obligation of Buyer and shall be subordinated to Buyer's obligations to its current and future third party lenders.

Section 1.04 Allocation of Purchase Price. Seller and Buyer agree that the Purchase Price shall be allocated among the Interests for all purposes (including Tax and financial accounting) as shown on the allocation schedule (the "**Allocation Schedule**"). A draft of the Allocation Schedule shall be prepared by Buyer and delivered to Seller within 30 days following the Closing. If Seller notifies Buyer in writing that Seller objects to one or more items reflected in the Allocation Schedule, Seller and Buyer shall negotiate in good faith to resolve such dispute; provided, however, that if Seller and Buyer are unable to resolve any dispute with respect to the Allocation Schedule within 60 days following the Closing, such dispute shall be resolved by Deloitte (the "**Accountant**"). The fees and expenses of such accounting firm shall be borne equally by Seller and Buyer. Buyer and Seller shall file all tax returns (including amended returns and claims for refund) and information reports in a manner consistent with the Allocation Schedule. Any adjustments to the Purchase Price shall be allocated in a manner consistent with the Allocation Schedule.

ARTICLE II

CLOSING

Section 2.01 Closing. The closing of the transactions contemplated by this Agreement (the "**Closing**") shall take place on the date of the execution of this Agreement (the "**Closing Date**"), at the offices of Davis Wright Tremaine LLP, 920 Fifth Avenue, Suite 3300, Seattle, Washington, or such other place or manner as the parties may mutually agree upon. The consummation of the transactions contemplated by this Agreement shall be deemed to occur at 12:01 a.m. P.S.T. on the Closing Date.

Section 2.02 Seller Closing Deliverables. At the Closing, Seller shall deliver to Buyer the following:

(a) Share certificates evidencing the Stock, duly endorsed in blank or accompanied by stock powers or other instruments of transfer duly executed in blank;

(b) Assignment of Warrants in the form of Exhibit 2.02(b) duly executed by Seller;

(c) Assignment of Note in the form of Exhibit 2.02(c) duly executed by Seller;

(d) UCC-3 Assignments of Note Security;

(e) A general bill of sale substantially in the form of Exhibit 2.02(e) duly executed by Seller;

(f) A consent to sale substantially in the form of Exhibit 2.02(f) duly executed by Seller;

(g) A certificate of the Secretary (or other officer) of Seller certifying (i) that attached thereto are true and complete copies of all resolutions of the board of managers and shareholders of Seller authorizing the execution, delivery, and performance of this Agreement, and the other agreements, instruments, and documents required to be delivered in connection with this Agreement or at the Closing (collectively, the "**Transaction Documents**") to which Seller is a party and the consummation of the transactions contemplated hereby and thereby, and that such resolutions are in full force and effect, and (ii) the names, titles, and signatures of the officers of Seller to sign this Agreement and the other Transaction Documents to which it is a party; and

(h) Resignations of Andrew Intrater, Jason Epstein, and Arnold Jung as directors and officers of the Company, effective as of the Closing Date.

Section 2.03 Buyer's Deliveries. At the Closing, Buyer shall deliver the following to or on behalf of Seller:

(a) $200,000 to Latham & Watkins; and

(b) A certificate of the Secretary (or other officer) of Buyer certifying (i) that attached thereto are true and complete copies of all resolutions of the board of directors of Buyer authorizing the execution, delivery, and performance of this Agreement and the Transaction Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby, and that such resolutions are in full force and effect, and (ii) the names, titles, and signatures of the officers of Buyer authorized to sign this Agreement and the other Transaction Documents to which it is a party.

Section 2.04 Condition Precedent to Closing. It shall be a condition precedent to the Closing that the Seller, Buyer and the Company shall each have duly executed and delivered to others a release substantially in the form of Exhibit 2.04 hereto.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer that the statements contained in this ARTICLE III are true and correct as of the date hereof. For purposes of this ARTICLE III, "Seller's knowledge," "knowledge of Seller," and any similar phrases shall mean the actual or constructive knowledge of any director or officer of Seller, after due inquiry.

Section 3.01 Organization and Authority of Seller. Seller is a limited liability company duly organized, validly existing, and in good standing under the Laws of the state of Delaware. Seller has full power and authority to enter into this Agreement and the other Transaction Documents to which it is a party, to carry out its obligations hereunder and thereunder, and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Seller of this Agreement and any other Transaction Document to which it is a party, the performance by Seller of its obligations hereunder and thereunder, and the consummation by Seller of the transactions contemplated hereby and thereby have been duly authorized by all requisite action on the part of Seller. This Agreement and each Transaction Document to which Seller is a party constitute legal, valid, and binding obligations of Seller enforceable against Seller in accordance with their respective terms.

Section 3.02 No Conflicts; Consents. The execution, delivery and performance by Seller of this Agreement and the other Transaction Documents to which Seller is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the certificate of incorporation, by-laws or other organizational documents of Seller; (b) conflict with or result in a violation or breach of any provision of any Law or Governmental Order applicable to Seller; (c) except as set forth in Section 3.02 of the Disclosure Schedules, require the consent, notice or other action by any Person under, conflict with, result in a violation or breach of, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, result in the acceleration of or create in any party the right to accelerate, terminate, modify or cancel any Contract to which Seller is a party or by which Seller is bound or to which any of its respective properties and assets are subject; or (d) result in the creation or imposition of any Encumbrance on any properties or assets of the Seller. Other than the Transaction License and associated reports required to be filed by Buyer as the licensee, no consent, approval, Governmental Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Seller in connection with the execution and delivery of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, except for compliance with the Transaction License. As used herein, "**Disclosure Schedules**" means the Disclosure Schedules delivered by Seller and Buyer concurrently with the execution and delivery of this Agreement.

Section 3.03 Interests.

(a) The Stock consists of 47,500,000 shares of the Class A Common Stock of the Company. All of the Stock is owned of record and beneficially by Seller, free and clear of all

Encumbrances, and, to the knowledge of Seller, has been duly authorized, validly issued, fully paid and is nonassessable.

(b) Seller has good title to and is the sole owner of the Loan and Note, free and clear of all Encumbrances and will convey the same to Buyer, together with all security therefore. As of December 31, 2018, the outstanding principal balance of the Loan was $5,000,000 together with accrued interest of $1,134,747.81. Neither the Loan, Note or the Note Security is subject to any prior assignment, conveyance, transfer or participation or agreement to assign, convey, transfer or participate, in whole or in part. Seller has received no payments with respect to the Loan. To Seller's knowledge: (i) the Note is the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms; (ii) there are no defenses to payment of the Note by the Company and (iii) the Note Security constitutes a perfected security interest in the collateral as defined therein.

(c) The Warrants and Warrant Agreement are valid and binding on the Company in accordance with their terms and are in full force and effect. Seller has not exercised the rights to acquire the Warrants under the Warrant Agreement. Seller is not, and to Seller's knowledge, the Company is not, in default of any obligation with respect to the Warrants or Warrant Agreement and no event or circumstance has occurred that, with notice or lapse of time or both, would constitute a default with respect to the Warrants or Warrant Agreement. Seller has provided Buyer with complete and correct copies of the Warrant, Warrant Agreement and all other Contracts related thereto (including all modifications, amendments and supplements thereto and waivers thereunder). "**Contracts**" means all contracts, leases, deeds, mortgages, licenses, instruments, notes, commitments, undertakings, indentures, joint ventures and all other agreements, commitments and legally binding arrangements, whether written or oral.

(d) All of the Interests were issued or obtained in compliance with applicable Laws. None of the Interests were issued in violation of any Contract or commitment to which Seller or, to the knowledge of Seller, the Company is a party or is subject to or in violation of any preemptive or similar rights of any individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association, or other entity (each, a "**Person**").

(e) The Interests constitute all of Seller's right, title and interest in or with respect to the Company and will be conveyed to Buyer free of all Encumbrances. Upon the transfer, assignment, and delivery of the Interests in accordance with the terms of this Agreement, Buyer shall own all of the Interests, free and clear of all Encumbrances.

Section 3.04 Legal Proceedings; Governmental Orders.

(a) There are no claims, actions, causes of action, demands, lawsuits, arbitrations, inquiries, audits, notices of violation, proceedings, litigation, citations, summons, subpoenas, or investigations of any nature, whether at law or in equity (collectively, "**Actions**") pending or, to Seller's knowledge, threatened against or by the Seller: (i) relating to or affecting the Interests; or (ii) that challenge or seek to prevent, enjoin, or otherwise delay the transactions contemplated by this Agreement. No event is known to have occurred or circumstances are known to exist that may give rise to, or serve as a basis for, any such Action.

(b) There are no outstanding, and the Seller is in compliance with all, Governmental Orders against, relating to, or affecting the Seller or any of its properties or assets.

Section 3.05 CN. Seller is wholly owned by US VC Partners LP, whose sole limited partner is Renova Innovation Technologies Ltd. which Seller believes to ultimately be owned by the Renova Group, an SDN. US VC Partners LP's general partner US VC Partners GP LLC. CN Manager is directly wholly owned by US persons and is not subject to OFAC sanctions. The $800,000 if permitted to be paid to CN Manager is for bona fide fees and expenses and is not in any way to be paid to any person subject to sanctions or restrictions by OFAC or otherwise.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller that the statements contained in this ARTICLE IV are true and correct as of the date hereof. For purposes of this ARTICLE IV, "Buyer's knowledge," "knowledge of Buyer," and any similar phrases shall mean the actual or constructive knowledge of any director or officer of Buyer, after due inquiry.

Section 4.01 Organization and Authority of Buyer. Buyer is a corporation duly organized, validly existing, and in good standing under the Laws of the state of California. Buyer has full power and authority to enter into this Agreement and the other Transaction Documents to which Buyer is a party, to carry out its obligations hereunder and thereunder, and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Buyer of this Agreement and any other Transaction Document to which Buyer is a party, the performance by Buyer of its obligations hereunder and thereunder, and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly authorized by all requisite action on the part of Buyer. This Agreement and each Transaction Document to which Buyer is a party constitute legal, valid, and binding obligations of Buyer enforceable against Buyer in accordance with their respective terms.

Section 4.02 No Conflicts; Consents. The execution, delivery, and performance by Buyer of this Agreement and the other Transaction Documents to which it is a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) violate or conflict with any provision of the certificate of incorporation, bylaws, or other governing documents of Buyer; (b) violate or conflict with any provision of any Law or Governmental Order applicable to Buyer; or (c) require the consent, notice, declaration, or filing with or other action by any Person or require any permit, license, or Governmental Order.

Section 4.03 Investment Purpose. Buyer is acquiring the Interests solely for its own account for investment purposes and not with a view to, or for offer or sale in connection with, any distribution thereof or any other security related thereto within the meaning of the Securities

Act of 1933, as amended (the "**Securities Act**"). Buyer acknowledges that Seller has not registered the offer and sale of the Interests under the Securities Act or any state securities laws, and that the Interests may not be pledged, transferred, sold, offered for sale, hypothecated, or otherwise disposed of except pursuant to the registration provisions of the Securities Act or pursuant to an applicable exemption therefrom and subject to state securities laws and regulations, as applicable.

ARTICLE V

COVENANTS

Section 5.01 Reasonable Best Efforts to Complete. Upon the terms and subject to the conditions set forth in this Agreement, each of Buyer and Seller shall use its reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other party or parties hereto in doing, all things reasonably necessary, proper or advisable under applicable Law or otherwise to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement, including using reasonable best efforts to obtain all necessary actions or non-actions, waivers, consents, approvals, orders and authorizations from Governmental Authorities, including without limitation the Transaction License, and make all necessary registrations, declarations and filings with Governmental Authorities, that are necessary to consummate the transactions contemplated hereby.

Without limitation, Buyer shall use its reasonable best efforts to seek to correct the errors made by Buyer in connection with obtaining the Transaction License as noted in the Recitals and to seek the Payment Authorization.

Section 5.02 Further Assurances. Following the Closing, each of the parties hereto shall, and shall cause their respective Affiliates to, execute and deliver such additional documents and instruments and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the transactions contemplated by this Agreement and the other Transaction Documents.

ARTICLE VI

INDEMNIFICATION

Section 6.01 Indemnification by Seller Parties. Subject to the other terms and conditions of this ARTICLE VI, the Seller shall indemnify and defend each of Buyer and its Affiliates (including the Company) and their respective Representatives (collectively, the "**Buyer Indemnitees**") against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all Losses incurred or sustained by, or imposed upon, the Buyer Indemnitees based upon, arising out of, with respect to, or by reason of:

(a) any inaccuracy in or breach of any of the representations or warranties of Seller contained in this Agreement or the other Transaction Documents; or

(b) any breach or non-fulfillment of any covenant, agreement, or obligation to be performed by Seller pursuant to this Agreement or the other Transaction Documents.

As used herein, "**Losses**" means losses, damages, liabilities, deficiencies, Actions, judgments, interest, awards, penalties, fines, costs or expenses of whatever kind, including reasonable attorneys' fees and the cost of enforcing any right to indemnification hereunder and the cost of pursuing any insurance providers; *provided, however,* that "**Losses**" shall not include punitive damages, except to the extent actually awarded to a Governmental Authority or other third party.

Section 6.02 Indemnification by Buyer. Subject to the other terms and conditions of this ARTICLE VI, Buyer shall indemnify and defend Seller and its Affiliates and their respective Representatives (collectively, the "**Seller Indemnitees**") against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all Losses incurred or sustained by, or imposed upon, the Seller Indemnitees based upon, arising out of, with respect to, or by reason of:

(a) any inaccuracy in or breach of any of the representations or warranties of Buyer contained in this Agreement or the other Transaction Documents;

(b) any breach or non-fulfillment of any covenant, agreement, or obligation to be performed by Buyer pursuant to this Agreement; or

(c) any claims for payment by Western Alliance Bank pursuant to the terms of that certain Limited Guaranty given by Seller as guarantor, to Western Alliance Bank as lender to the Company, dated December 15, 2017, a copy of which is attached hereto as Exhibit 6.02(c).

Section 6.03 Indemnification Procedures. Whenever any claim shall arise for indemnification hereunder, the party entitled to indemnification (the "**Indemnified Party**") shall promptly provide written notice of such claim to the other party (the "**Indemnifying Party**"). In connection with any claim giving rise to indemnity hereunder resulting from or arising out of any Action by a Person who is not a party to this Agreement, the Indemnifying Party, at its sole cost and expense and upon written notice to the Indemnified Party, may assume the defense of any such Action with counsel reasonably satisfactory to the Indemnified Party. The Indemnified Party shall be entitled to participate in the defense of any such Action, with its counsel and at its own cost and expense. If the Indemnifying Party does not assume the defense of any such Action, the Indemnified Party may, but shall not be obligated to, defend against such Action in such manner as it may deem appropriate, including settling such Action, after giving notice of it to the Indemnifying Party, on such terms as the Indemnified Party may deem appropriate and no action taken by the Indemnified Party in accordance with such defense and settlement shall relieve the Indemnifying Party of its indemnification obligations herein provided with respect to any damages resulting therefrom. The Indemnifying Party shall not settle any Action without the Indemnified Party's prior written consent (which consent shall not be unreasonably withheld or delayed).

Section 6.04 Cumulative Remedies. The rights and remedies provided for in this ARTICLE VI are cumulative and are in addition to and not in substitution for any other rights and remedies available at Law or in equity or otherwise.

ARTICLE VII

MISCELLANEOUS

Section 7.01 Expenses. All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses.

Section 7.02 Notices. All notices, claims, demands, and other communications hereunder shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by email of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next business day if sent after normal business hours of the recipient; or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid, if sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 7.02):

If to Seller:	Rhapsody Applebee, LLC c/o Columbus Nova Technology Partners 900 Third Avenue, 19th Floor New York, NY 10022 Email: aintrater@columbusnova.com Attention: Andrew Intrater, CEO
If to Buyer:	RealNetworks Digital Music of California, Inc. c/o RealNetworks, Inc. 1501 1st Avenue S. Suite 600 Seattle, WA 98134 Email: mparham@realnetworks.com Attention: Michael Parham, General Counsel

Section 7.03 Interpretation; Headings. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

Section 7.04 Severability. If any term or provision of this Agreement is invalid, illegal, or unenforceable in any jurisdiction, such invalidity, illegality, or unenforceability shall not affect any other term or provision of this Agreement.

Section 7.05 Entire Agreement. This Agreement and the other Transaction Documents constitute the sole and entire agreement of the parties to this Agreement with respect to the subject matter contained herein and therein, and supersede all prior and contemporaneous understandings and agreements, both written and oral, with respect to such subject matter. In the event of any inconsistency between the statements in the body of this Agreement and those in the other Transaction Documents and the Disclosure Schedules (other than an exception expressly set forth as such in the Disclosure Schedules), the statements in the body of this Agreement will control.

Section 7.06 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither party may assign its rights or obligations hereunder without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed provided that nothing herein shall restrict Buyer's ability to assign its rights and interests in whole or in part to any affiliate of Buyer. No assignment shall relieve the assigning party of any of its obligations hereunder.

Section 7.07 Amendment and Modification; Waiver. This Agreement may only be amended, modified, or supplemented by an agreement in writing signed by each party hereto. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No failure to exercise, or delay in exercising, any right or remedy arising from this Agreement shall operate or be construed as a waiver thereof. No single or partial exercise of any right or remedy hereunder shall preclude any other or further exercise thereof or the exercise of any other right or remedy.

Section 7.08 Governing Law; Submission to Jurisdiction. This Agreement and the other Transaction Documents shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the conflicts of law principles thereof. Each party hereto by its execution hereof, (i) hereby irrevocably submit to the exclusive jurisdiction of the state and Federal courts located within the borough of Manhattan of the City, County and State of New York for the purposes of any claim or action arising out of or based upon this Agreement or relating to the subject matter hereof, (ii) hereby waive, to the extent not prohibited by applicable Law, and agree not to assert by way of motion, as a defense or otherwise, in any such claim or action, any claim that it, he or she is not subject personally to the jurisdiction of the above-named courts, that its, his or her property is exempt or immune from attachment or execution, that any such proceeding brought in the above-named courts is improper or that this Agreement or the other Transaction Documents or the subject matter hereof may not be enforced in or by such courts and (iii) hereby agree not to commence any claim or action arising out of or based upon this Agreement or relating to the subject matter hereof other than before the above-named courts nor to make any motion or take any other action seeking or intending to cause the transfer or removal of any such claim or action to any court other than the above-named courts whether on the grounds of inconvenient forum or otherwise. **Each of the parties to this Agreement irrevocably waives any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or any of the other Transaction Documents.**

Section 7.09

Section 7.10 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by email or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

RHAPSODY APPLEBEE, LLC

By: /s/ Andrew Intrater

Name: Andrew Intrater

Title: Authorized Person

REALNETWORKS DIGITAL MUSIC OF CALIFORNIA, INC.

By: /s/ Michael Parham

Name: Michael Parham

Title: CEO

[Signature Page to Purchase Agreement]

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert Glaser, certify that:

1. I have reviewed this report on Form 10-Q of RealNetworks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 8, 2019

/s/ Robert Glaser

Robert Glaser
Title: Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Cary Baker, certify that:

1. I have reviewed this report on Form 10-Q of RealNetworks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ Cary Baker

Cary Baker
Title: Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

I, Robert Glaser, Chairman of the Board of Directors and Chief Executive Officer of RealNetworks, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of RealNetworks, Inc. on Form 10-Q for the fiscal quarter ended March 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of RealNetworks, Inc.

Date: May 8, 2019

By: /s/ Robert Glaser

Name: Robert Glaser
Title: Chairman and Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to RealNetworks, Inc. and will be retained by RealNetworks, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, Cary Baker, Senior Vice President, Chief Financial Officer and Treasurer of RealNetworks, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of RealNetworks, Inc. on Form 10-Q for the fiscal quarter ended March 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of RealNetworks, Inc.

Date: May 8, 2019

By: /s/ Cary Baker

Name: Cary Baker
Title: Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to RealNetworks, Inc. and will be retained by RealNetworks, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.