

REALNETWORKS INC  
Form 10-Q  
May 10, 2011  
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**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, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-23137

**RealNetworks, Inc.**

(Exact name of registrant as specified in its charter)

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**Washington**  
(State of incorporation)

**91-1628146**  
(I.R.S. Employer

Identification Number)

**2601 Elliott Avenue, Suite 1000**

**Seattle, Washington**  
(Address of principal executive offices)

**98121**  
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the registrant's Common Stock outstanding as of April 29, 2011 was 136,533,659.

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**Table of Contents****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, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 249,108	\$ 236,018
Short-term investments	82,374	98,303
Trade accounts receivable, net of allowances for doubtful accounts and sales returns	46,350	48,324
Deferred costs, current portion	8,883	9,173
Related party receivable Rhapsody	417	351
Prepaid expenses and other current assets	33,500	30,441
<b>Total current assets</b>	<b>420,632</b>	<b>422,610</b>
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	145,691	144,623
Leasehold improvements	25,578	25,367
<b>Total equipment, software, and leasehold improvements, at cost</b>	<b>171,269</b>	<b>169,990</b>
Less accumulated depreciation and amortization	129,087	126,619
<b>Net equipment, software, and leasehold improvements</b>	<b>42,182</b>	<b>43,371</b>
Restricted cash equivalents and investments	10,000	10,000
Equity method investments	12,236	15,486
Available for sale securities	20,484	27,541
Other assets	3,424	3,316
Deferred costs, non-current portion	17,436	18,401
Deferred tax assets, net, non-current portion	12,901	12,805
Other intangible assets, net	6,324	6,952
Goodwill	5,078	4,960
<b>Total assets</b>	<b>\$ 550,697</b>	<b>\$ 565,442</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 24,695	\$ 30,413
Accrued and other liabilities	86,730	85,702
Deferred revenue, current portion	21,078	19,036
Accrued loss on excess office facilities, current portion	1,200	1,144
<b>Total current liabilities</b>	<b>133,703</b>	<b>136,295</b>
Deferred revenue, non-current portion	168	460
Accrued loss on excess office facilities, non-current portion	3,101	3,380

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Deferred rent	3,268	3,514
Deferred tax liabilities, net, non-current portion	1,014	1,049
Other long-term liabilities	8,910	7,999
<b>Total liabilities</b>	<b>150,164</b>	<b>152,697</b>
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 1,000,000 shares; issued and outstanding 136,443 shares in 2011 and 136,083 shares in 2010	136	136
Additional paid-in capital	702,036	697,430
Accumulated other comprehensive loss	(37,054)	(32,543)
Retained deficit	(264,585)	(252,278)
<b>Total shareholders' equity</b>	<b>400,533</b>	<b>412,745</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 550,697</b>	<b>\$ 565,442</b>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<b>Quarters Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net revenue (A)	\$ 87,301	\$ 128,600
Cost of revenue (B)	32,066	49,159
Gross profit	55,235	79,441
Operating expenses:		
Research and development	19,895	34,675
Sales and marketing	28,480	37,827
Advertising with related party		1,065
General and administrative	5,622	14,921
Restructuring and other charges	6,904	5,615
Total operating expenses	60,901	94,103
Operating loss	(5,666)	(14,662)
Other income (expenses), net:		
Interest income, net	379	380
Equity in net loss of Rhapsody and other equity method investments	(3,281)	
Gain on deconsolidation of Rhapsody		10,929
Other income (expense), net	(122)	99
Other income (expense), net	(3,024)	11,408
Loss before income taxes	(8,690)	(3,254)
Income taxes benefit (expense)	(3,615)	3,572
Net income (loss)	(12,305)	318
Net loss attributable to noncontrolling interest in Rhapsody prior to deconsolidation		2,910
Net income (loss) attributable to common shareholders	\$ (12,305)	\$ 3,228
Basic net income (loss) per share available to common shareholders	\$ (0.09)	\$ 0.05
Diluted net income (loss) per share available to common shareholders	\$ (0.09)	\$ 0.05
Shares used to compute basic net income (loss) per share available to common shareholders	136,264	135,130
Shares used to compute diluted net income (loss) per share available to common shareholders	136,264	139,573
Comprehensive income (loss):		
Net income (loss)	\$ (12,305)	\$ 318
Unrealized holding gains (losses), net of tax	(7,066)	1,551
Foreign currency translation gains (losses)	2,553	(1,611)

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Comprehensive income (loss)	(16,818)	258
Net loss attributable to noncontrolling interest		2,910
<b>Comprehensive income (loss) attributable to common shareholders</b>	<b>\$ (16,818)</b>	<b>\$ 3,168</b>
(A) Components of net revenue:		
License fees	\$ 18,414	\$ 24,172
Service revenue	68,887	104,428
	<b>\$ 87,301</b>	<b>\$ 128,600</b>
(B) Components of cost of revenue:		
License fees	\$ 5,246	\$ 7,549
Service revenue	26,820	41,610
	<b>\$ 32,066</b>	<b>\$ 49,159</b>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<b>Quarters Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Net income (loss)	\$ (12,305)	\$ 318
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	3,819	7,314
Stock-based compensation	3,453	3,921
Deferred income tax expense	(161)	(1,359)
Gain on disposal of equipment, software, and leasehold improvements	(28)	(2)
Excess tax benefit from stock option exercises	(26)	(29)
Equity in net loss of Rhapsody and other investments	3,281	
Gain on deconsolidation of Rhapsody		(10,929)
Accrued restructuring and other charges	2,280	4,455
Other	133	
Net change in certain operating assets and liabilities, net of acquisitions and deconsolidation of Rhapsody:		
Trade accounts receivable	2,794	(988)
Prepaid expenses and other assets	(1,705)	(3,629)
Accounts payable	(7,655)	4,578
Accrued and other liabilities	934	(36,106)
Net cash used in operating activities	(5,186)	