

REALNETWORKS INC
Form 10-Q
August 07, 2014

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 June 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number 0-23137

RealNetworks, Inc.

(Exact name of registrant as specified in its charter)

Washington

91-1628146

(State of incorporation)

(I.R.S. Employer

Identification Number)

1501 First Avenue South, Suite 600

98134

Seattle, Washington

(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 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 July 31, 2014 was 35,995,569.

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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)

| | June 30, 2014 | December 31, 2013 |
|---|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$124,450 | \$151,235 |
| Short-term investments | 70,583 | 74,920 |
| Trade accounts receivable, net of allowances | 21,580 | 24,613 |
| Deferred costs, current portion | 992 | 1,601 |
| Deferred tax assets, current | 311 | 306 |
| Prepaid expenses and other current assets | 9,910 | 9,124 |
| Total current assets | 227,826 | 261,799 |
| Equipment, software, and leasehold improvements, at cost: | | |
| Equipment and software | 86,755 | 86,721 |
| Leasehold improvements | 3,915 | 3,482 |
| Total equipment, software, and leasehold improvements, at cost | 90,670 | 90,203 |
| Less accumulated depreciation and amortization | 70,212 | 67,031 |
| Net equipment, software, and leasehold improvements | 20,458 | 23,172 |
| Restricted cash equivalents and investments | 3,000 | 3,000 |
| Equity method investment | 10,000 | 12,473 |
| Available for sale securities | 3,182 | 7,181 |
| Other assets | 3,073 | 2,332 |
| Deferred costs, non-current portion | 1,062 | 946 |
| Deferred tax assets, net, non-current portion | 1,405 | 1,409 |
| Other intangible assets, net | 11,928 | 12,993 |
| Goodwill | 18,005 | 17,476 |
| Total assets | \$299,939 | \$342,781 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$20,363 | \$19,987 |
| Accrued and other current liabilities | 26,874 | 41,893 |
| Deferred tax liabilities, net, current portion | 911 | 899 |
| Deferred revenue, current portion | 7,835 | 7,498 |
| Total current liabilities | 55,983 | 70,277 |
| Deferred revenue, non-current portion | 145 | 166 |
| Deferred rent | 1,269 | 1,318 |
| Deferred tax liabilities, net, non-current portion | 1,725 | 1,556 |
| Other long-term liabilities | 607 | 483 |
| Total liabilities | 59,729 | 73,800 |
| 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 | — | — |
| | 36 | 36 |

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Common stock, \$0.001 par value authorized 250,000 shares; issued and outstanding 35,992 shares in 2014 and 35,833 shares in 2013

| | | | |
|--|-----------|------------|---|
| Additional paid-in capital | 613,617 | 610,167 | |
| Accumulated other comprehensive loss | (51,117 |) (47,695 |) |
| Retained deficit | (322,326 |) (293,527 |) |
| Total shareholders' equity | 240,210 | 268,981 | |
| Total liabilities and shareholders' equity | \$299,939 | \$342,781 | |

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)

| | Quarters Ended | | Six Months Ended | |
|---|----------------|----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Net revenue (A) | \$40,825 | \$49,850 | \$86,549 | \$106,643 |
| Cost of revenue (B) | 20,786 | 19,519 | 39,572 | 40,025 |
| Extinguishment of liability (See Note 10) | — | — | (10,580) | — |
| Gross profit | 20,039 | 30,331 | 57,557 | 66,618 |
| Operating expenses: | | | | |
| Research and development | 13,267 | 14,993 | 27,326 | 30,244 |
| Sales and marketing | 16,016 | 19,269 | 37,739 | 40,403 |
| General and administrative | 8,577 | 8,691 | 17,894 | 18,637 |
| Restructuring and other charges | 541 | 816 | 1,757 | 2,198 |
| Lease exit and related charges | 470 | 3,066 | 549 | 3,066 |
| Total operating expenses | 38,871 | | | |