

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended June 30, 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  
(State of incorporation)

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

91-1628146  
(I.R.S. Employer  
Identification Number)

98134  
(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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 July 31, 2019 was 38,049,868 .

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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, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 26,339	\$ 35,561
Short-term investments	—	24
Trade accounts receivable, net of allowances of \$644 and \$560	31,957	11,751
Deferred costs, current portion	465	331
Prepaid expenses and other current assets	20,382	5,911
Total current assets	79,143	53,578
Equipment, software, and leasehold improvements, at cost:		
Equipment and software	32,079	37,458
Leasehold improvements	3,319	3,292
Total equipment, software, and leasehold improvements, at cost	35,398	40,750
Less accumulated depreciation and amortization	32,268	37,996
Net equipment, software, and leasehold improvements	3,130	2,754
Operating lease assets	13,672	—
Restricted cash equivalents	2,124	1,630
Other assets	2,739	3,997
Deferred costs, non-current portion	797	528
Deferred tax assets, net	854	851
Other intangible assets, net	21,616	26
Goodwill	65,395	16,955
Total assets	\$ 189,470	\$ 80,319
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,224	\$ 3,910
Accrued royalties, fulfillment and other current liabilities	97,951	11,312
Commitment to Napster	—	2,750
Deferred revenue, current portion	6,054	2,125
Notes payable	7,878	—
Total current liabilities	117,107	20,097
Deferred revenue, non-current portion	179	268
Deferred rent	—	986
Deferred tax liabilities, net	1,262	1,168
Long-term lease liabilities	10,384	—
Other long-term liabilities	11,070	960
Total liabilities	140,002	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 38,049 shares in 2019 and 37,728 shares in 2018	37	37
Additional paid-in capital	642,720	641,930
Accumulated other comprehensive loss	(61,697)	(61,118)
Retained deficit	(531,678)	(524,009)
Total shareholders' equity	49,382	56,840

Noncontrolling interests	86	—
Total equity	49,468	56,840
Total liabilities and equity	\$ 189,470	\$ 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net revenue	\$ 44,248	\$ 15,724	\$ 83,720	\$ 35,374
Cost of revenue	27,282	4,625	52,152	9,761
Gross profit	16,966	11,099	31,568	25,613
Operating expenses:				
Research and development	8,876	7,652	17,709	15,346
Sales and marketing	8,360	4,883	16,502	10,880
General and administrative	8,392	5,339	16,756	10,940
Restructuring and other charges	729	187	896	688
Lease exit and related benefit	—	(129)	—	(454)
Total operating expenses	26,357	17,932	51,863	37,400
Operating loss	(9,391)	(6,833)	(20,295)	(11,787)
Other income (expenses):				
Interest expense	(43)	—	(209)	—
Interest income	40	111	117	198
Gain (loss) on equity investment, net	—	—	12,338	—
Other income (expenses), net	183	(42)	310	(83)
Total other income (expenses), net	180	69	12,556	115
Income (loss) before income taxes	(9,211)	(6,764)	(7,739)	(11,672)
Income tax expense	244	166	502	436
Net income (loss) including noncontrolling interests	(9,455)	(6,930)	(8,241)	(12,108)
Net income (loss) attributable to noncontrolling interests	(253)	—	(572)	—
Net income (loss) attributable to RealNetworks	\$ (9,202)	\$ (6,930)	\$ (7,669)	\$ (12,108)
Net income (loss) per share attributable to RealNetworks- Basic	\$ (0.24)	\$ (0.18)	\$ (0.20)	\$ (0.32)
Net income (loss) per share attributable to RealNetworks- Diluted	\$ (0.24)	\$ (0.18)	\$ (0.20)	\$ (0.32)
Shares used to compute basic net income (loss) per share	37,948	37,577	37,885	37,514
Shares used to compute diluted net income (loss) per share	37,948	37,577	37,885	37,514
Comprehensive income (loss):				
Unrealized investment holding gains (losses), net of reclassification adjustments	\$ —	\$ 2	\$ —	\$ 3
Foreign currency translation adjustments, net of reclassification adjustments	(492)	(1,604)	(579)	(1,208)
Total other comprehensive income (loss)	(492)	(1,602)	(579)	(1,205)
Net income (loss) including noncontrolling interests	(9,455)	(6,930)	(8,241)	(12,108)
Comprehensive income (loss) including noncontrolling interests	(9,947)	(8,532)	(8,820)	(13,313)
Comprehensive income (loss) attributable to noncontrolling interests	(253)	—	(572)	—
Comprehensive income (loss) attributable to RealNetworks	\$ (9,694)	\$ (8,532)	\$ (8,248)	\$ (13,313)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net income (loss) including noncontrolling interests	\$ (8,241)	\$ (12,108)
Adjustments to reconcile net income (loss) including noncontrolling interests to net cash used in operating activities:		
Depreciation and amortization	2,959	1,231
Stock-based compensation	1,917	1,614
Deferred income taxes, net	—	(12)
(Gain) loss on equity investment, net	(12,338)	—
Foreign currency (gain) loss	(315)	—
Fair value adjustments to contingent consideration liability	300	—
Mark to market adjustment of warrants	—	50
Net change in certain operating assets and liabilities:		
Trade accounts receivable	671	16,960
Prepaid expenses, operating lease and other assets	(328)	(1,633)
Accounts payable	398	(16,601)
Accrued, lease and other liabilities	(1,122)	(2,231)
Net cash used in operating activities	<u>(16,099)</u>	<u>(12,730)</u>
<b>Cash flows from investing activities:</b>		
Purchases of equipment, software, and leasehold improvements	(873)	(580)
Proceeds from sales and maturities of short-term investments	24	5,726
Acquisition, net of cash acquired	12,260	(4,192)
Net cash provided by investing activities	<u>11,411</u>	<u>954</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock (stock options and stock purchase plan)	144	114
Tax payments from shares withheld upon vesting of restricted stock	(287)	(243)
Proceeds from notes payable	19,760	—
Repayments of notes payable	(24,018)	—
Other financing activities	450	—
Net cash provided by (used in) financing activities	<u>(3,951)</u>	<u>(129)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(89)	(731)
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>(8,728)</u>	<u>(12,636)</u>
Cash, cash equivalents and restricted cash, beginning of period	37,191	53,596
Cash, cash equivalents, and restricted cash end of period	<u>\$ 28,463</u>	<u>\$ 40,960</u>

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						
<b>Balances, January 1, 2018</b>	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)
<b>Balances, March 31, 2018</b>	37,564	\$ 37	\$ 639,652	\$ (59,150)	\$ (504,197)	\$ 76,342	\$ —	\$ 76,342
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	48	—	103	—	—	103	—	103
Stock-based compensation	—	—	457	—	—	457	—	457
Investments unrealized gains (losses), net of tax effects of \$1	—	—	—	2	—	2	—	2
Foreign currency translation adjustments	—	—	—	(1,604)	—	(1,604)	—	(1,604)
Net income (loss)	—	—	—	—	(6,930)	(6,930)	—	(6,930)
<b>Balances, June 30, 2018</b>	37,612	\$ 37	\$ 640,212	\$ (60,752)	\$ (511,127)	\$ 68,370	\$ —	\$ 68,370
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Shareholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount						
<b>Balances, January 1, 2019</b>	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
<b>Balances, March 31, 2019</b>	37,918	\$ 37	\$ 642,059	\$ (61,205)	\$ (522,476)	\$ 58,415	\$ 339	\$ 58,754
Common stock issued for exercise of stock options, employee stock purchase plan, and vesting of restricted shares	131	—	128	—	—	128	—	128
Stock-based compensation	—	—	533	—	—	533	—	533
Foreign currency translation adjustments	—	—	—	(492)	—	(492)	—	(492)
Net income (loss)	—	—	—	—	(9,202)	(9,202)	(253)	(9,455)
<b>Balances, June 30, 2019</b>	38,049	\$ 37	\$ 642,720	\$ (61,697)	\$ (531,678)	\$ 49,382	\$ 86	\$ 49,468

See accompanying notes to unaudited condensed consolidated financial statements.





**REALNETWORKS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**Quarters and Six Months Ended June 30, 2019 and 2018**

**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 Napster music business, which we acquired on January 18, 2019, 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 and six months ended June 30, 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 or in the second quarter of 2019 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):

Business Line	Quarter Ended June 30, 2019				Six Months Ended June 30, 2019			
	Consumer Media	Mobile Services	Games	Napster	Consumer Media	Mobile Services	Games	Napster
Software License	\$ 944	\$ 957	\$ —	\$ —	\$ 1,679	\$ 1,556	\$ —	\$ —
Subscription Services	1,040	6,040	3,073	28,583	2,128	12,380	6,058	52,920
Product Sales	206	—	2,177	—	425	—	4,165	—
Advertising and Other	430	—	798	—	874	—	1,535	—
Total	<u>\$ 2,620</u>	<u>\$ 6,997</u>	<u>\$ 6,048</u>	<u>\$ 28,583</u>	<u>\$ 5,106</u>	<u>\$ 13,936</u>	<u>\$ 11,758</u>	<u>\$ 52,920</u>

  

Business Line	Quarter Ended June 30, 2018				Six Months Ended June 30, 2018			
	Consumer Media	Mobile Services	Games	Napster	Consumer Media	Mobile Services	Games	Napster
Software License	\$ 1,808	\$ 469	\$ —	\$ —	\$ 5,145	\$ 1,804	\$ —	\$ —
Subscription Services	1,225	6,250	2,689	—	2,510	13,619	5,382	—
Product Sales	299	—	1,953	—	639	—	4,355	—
Advertising and Other	552	—	479	—	1,073	—	847	—
Total	<u>\$ 3,884</u>	<u>\$ 6,719</u>	<u>\$ 5,121</u>	<u>\$ —</u>	<u>\$ 9,367</u>	<u>\$ 15,423</u>	<u>\$ 10,584</u>	<u>\$ —</u>

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

Sales Channel	Quarter Ended June 30, 2019				Six Months Ended June 30, 2019			
	Consumer Media	Mobile Services	Games	Napster	Consumer Media	Mobile Services	Games	Napster
Business to Business	\$ 1,375	\$ 6,881	\$ 1,115	\$ 13,804	\$ 2,553	\$ 13,698	\$ 2,151	\$ 25,899
Direct to Consumer	1,245	116	4,933	14,779	2,553	238	9,607	27,021
Total	<u>\$ 2,620</u>	<u>\$ 6,997</u>	<u>\$ 6,048</u>	<u>\$ 28,583</u>	<u>\$ 5,106</u>	<u>\$ 13,936</u>	<u>\$ 11,758</u>	<u>\$ 52,920</u>

  

Sales Channel	Quarter Ended June 30, 2018				Six Months Ended June 30, 2018			
	Consumer Media	Mobile Services	Games	Napster	Consumer Media	Mobile Services	Games	Napster
Business to Business	\$ 2,360	\$ 6,573	\$ 836	\$ —	\$ 6,218	\$ 15,103	\$ 1,587	\$ —
Direct to Consumer	1,524	146	4,285	—	3,149	320	8,997	—
Total	<u>\$ 3,884</u>	<u>\$ 6,719</u>	<u>\$ 5,121</u>	<u>\$ —</u>	<u>\$ 9,367</u>	<u>\$ 15,423</u>	<u>\$ 10,584</u>	<u>\$ —</u>

## 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 June 30, 2019 and December 31, 2018, our balance of long-term accounts receivable was \$0.1 million 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 June 30, 2019 is primarily due to the timing of expected cash receipts. During the quarter and six months ended June 30, 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 June 30, 2019, we had a deferred revenue balance of \$6.2 million, an increase of \$3.8 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Total stock-based compensation expense	\$ 533	\$ 457	\$ 1,917	\$ 1,614

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate	2.26%	2.72%	2.32%	2.59%
Expected life (years)	3.8	3.8	4.1	4.0
Volatility	41%	35%	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 six months ended June 30, 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 June 30, 2019, \$3.1 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, and Napster is reported as a separate segment in RealNetworks' consolidated financial statements. Napster, however, remains a distinct legal entity and RealNetworks assumes no ownership or control over the assets or liabilities of Napster.

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 was remeasured to fair value on the acquisition date. The remeasurement to fair value of the historical 42% ownership interest resulted in the recognition of a \$2.7 million gain in the first quarter of 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 on our consolidated balance sheet, 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	<u>\$ 21,708</u>
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	<u>127,158</u>
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	<u>104,880</u>
Total net assets acquired	<u>22,278</u>
Noncontrolling interests	570
Net assets acquired	<u>\$ 21,708</u>

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 first quarter of 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 accrued \$2.6 million and \$9.0 million in Accrued royalties, fulfillment and other current liabilities, and Other long-term liabilities, respectively, as of March 31, 2019. See Note 6 Fair Value Measurements for details on the adjustment to this liability for the second quarter of 2019.

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 on the acquisition date, 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 June 30, 2019, Napster's revenue and net loss including noncontrolling interests in our consolidated statements of operations was \$28.6 million and \$1.5 million, respectively. For the six months ended June 30, 2019, Napster's revenue and net loss including noncontrolling interests in our consolidated statements of operations was \$52.9 million and \$3.3 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) June 30,		Six Months Ended - Pro Forma (Unaudited) June 30,	
	2019	2018	2019	2018
Net revenue	\$ 44,355	\$ 52,296	\$ 90,193	\$ 112,145
Net income (loss) attributable to RealNetworks <sup>(1)</sup>	(8,455)	(4,694)	(17,973)	2,295

<sup>(1)</sup> The pro forma net earnings attributable to RealNetworks for the quarter ended June 30, 2018 include \$0.4 million of transaction costs, and for the six months ended June 30, 2018, pro forma net earnings attributable to RealNetworks include the acquisition related gain of \$12.3 million and \$1.2 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 and contingent consideration.

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 and six months ended June 30, 2019, we incurred approximately \$0.4 million and \$1.2 million, respectively, 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 June 30, 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				Amortized Cost as of
	June 30, 2019				
	Level 1	Level 2	Level 3	Total	June 30, 2019
<b>Assets:</b>					
Cash and cash equivalents:					
Cash	\$ 25,660	\$ —	\$ —	\$ 25,660	\$ 25,660
Money market funds	679	—	—	679	679
Total cash and cash equivalents	26,339	—	—	26,339	26,339
Restricted cash equivalents	—	2,124	—	2,124	2,124
Total assets	\$ 26,339	\$ 2,124	\$ —	\$ 28,463	\$ 28,463
<b>Liabilities:</b>					
Accrued royalties, fulfillment and other current liabilities					
Napster acquisition contingent consideration	\$ —	\$ —	\$ 2,685	\$ 2,685	N/A
Other long-term liabilities					
Napster acquisition contingent consideration	—	—	9,215	9,215	N/A
Total liabilities	\$ —	\$ —	\$ 11,900	\$ 11,900	N/A

	Fair Value Measurements as of				Amortized Cost as of
	December 31, 2018				
	Level 1	Level 2	Level 3	Total	December 31, 2018
<b>Assets:</b>					
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 June 30, 2019 and December 31, 2018 relate to cash pledged as collateral against letters of credit in connection with lease agreements.

Accrued royalties, fulfillment and other current liabilities and Other long-term liabilities as of June 30, 2019 include the 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 is adjusted quarterly to fair value through earnings. In the second quarter of 2019, we recorded the change in fair value of the contingent consideration of \$0.3 million as an increase to the total liability on the consolidated balance sheet and as general and administrative expense on the consolidated statement of operations.

Realized gains or losses on sales of short-term investment securities for the quarters and six months ended June 30, 2019 and 2018 were not significant. Gross unrealized gains and gross unrealized losses on short-term investment securities as of June 30, 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 six months ended June 30, 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):

	June 30, 2019			December 31, 2018		
	Gross Amount	Accumulated Amortization	Net	Gross Amount	Accumulated Amortization	Net
Amortizing intangible assets:						
Customer relationships	\$ 41,155	\$ 31,358	\$ 9,797	\$ 30,993	\$ 30,993	\$ —
Developed technology	29,934	24,710	5,224	24,446	24,446	—
Patents, trademarks and tradenames	10,471	3,879	6,592	3,765	3,765	—
Service contracts	5,454	5,451	3	5,538	5,512	26
Total	\$ 87,014	\$ 65,398	\$ 21,616	\$ 64,742	\$ 64,716	\$ 26

Amortization expense related to other intangible assets during the quarters ended June 30, 2019, and June 30, 2018, was \$1.1 million and \$0.1 million, respectively. Amortization expense related to other intangible assets during the six months ended June 30, 2019, and June 30, 2018, was \$2.1 million and \$0.2 million, respectively.

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

	Future Amortization
2019 (Excluding the six months ended June 30, 2019)	\$ 2,266
2020	4,526
2021	4,526
2022	2,641
2023	1,145
Thereafter	6,512
	\$ 21,616

See Note 5 Acquisitions for details on our acquisitions. No impairments of other intangible assets were recognized in either of the six months ended June 30, 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		(34)
Balance, June 30, 2019	\$	<u>65,395</u>

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

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

		<b>June 30, 2019</b>
Consumer Media	\$	580
Mobile Services		2,032
Games		14,309
Napster		48,474
Total goodwill	\$	<u>65,395</u>

No impairment of goodwill was recognized in either of the six months ended June 30, 2019 or in 2018 .

**Note 9 Accrued royalties, fulfillment and other current liabilities**

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

	June 30, 2019	December 31, 2018
Royalties and other fulfillment costs	\$ 75,849	\$ 1,989
Employee compensation, commissions and benefits	6,395	4,444
Sales, VAT and other taxes payable	3,293	785
Operating Lease Liabilities - Current	5,028	—
Other	7,386	4,094
Total accrued royalties, fulfillment and other current liabilities	\$ 97,951	\$ 11,312

Included in royalties and other fulfillment costs are Napster's accrued music royalties totaling \$74.1 million at June 30, 2019. 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 \$12.9 million at June 30, 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 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. As of June 30, 2019, Napster had \$7.9 million borrowings outstanding with an interest rate of 2.25%.

In 2015, Napster entered into a Loan and Security Agreement (Revolver LSA) with a bank. The available borrowing on the Revolver LSA was based upon Napster's accounts receivable and direct to consumer subscription deposits. The Revolver LSA had a maximum available balance of \$7.0 million. The Revolver LSA matured and the loan balance was paid in full on April 30, 2019.

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. 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 expense re-alignment efforts, which primarily relate to severance costs due to workforce reductions.

Our Games segment continues its shift to focus on free-to-play games that offer in-game purchases of virtual goods and away from premium mobile games that require a one-time purchase. While certain new premium mobile games will be offered, this shift in focus resulted in restructuring costs of \$0.6 million for the quarter, recorded in the Corporate segment.

Restructuring charges are as follows (in thousands):

	<b>Employee Separation Costs</b>	<b>Asset Related and Other Costs</b>	<b>Total</b>
Costs incurred and charged to expense for the six months ended June 30, 2019	\$ 344	\$ 552	\$ 896
Costs incurred and charged to expense for the six months ended June 30, 2018	\$ 688	\$ —	\$ 688

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

	<b>Employee Separation Costs</b>	<b>Asset Related and Other Costs</b>	<b>Total</b>
Accrued liability at December 31, 2018	\$ 755	\$ —	\$ 755
Costs incurred and charged to expense for the six months ended June 30, 2019, excluding noncash charges	344	227	571
Cash payments	(693)	—	(693)
Accrued liability at June 30, 2019	\$ 406	\$ 227	\$ 633

**Note 12 Income Taxes**

As of June 30, 2019, RealNetworks has \$4.5 million in uncertain tax positions, of which \$4.1 million of unrecognized tax positions was 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income (loss) attributable to RealNetworks	\$ (9,202)	\$ (6,930)	\$ (7,669)	\$ (12,108)
Weighted average common shares outstanding used to compute basic EPS	37,948	37,577	37,885	37,514
Dilutive effect of stock based awards	—	—	—	—
Weighted average common shares outstanding used to compute diluted EPS	37,948	37,577	37,885	37,514
Basic EPS attributable to RealNetworks	\$ (0.24)	\$ (0.18)	\$ (0.20)	\$ (0.32)
Diluted EPS attributable to RealNetworks	\$ (0.24)	\$ (0.18)	\$ (0.20)	\$ (0.32)

During the quarter and six months ended June 30, 2019, 7.7 million and 7.3 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.

During the quarter and six months ended June 30, 2018, 5.9 million and 6.0 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 5 years.

Details related to lease expense and supplemental cash flow were as follows (in thousands):

	Quarter Ended June 30,	Six Months Ended June 30,
	2019	2019
Operating lease expense	\$ 1,463	\$ 2,803
Variable lease expense	358	511
Sublease income	(511)	(986)
Net lease expense	\$ 1,310	\$ 2,328
Operating cash outflows for lease liabilities	\$ 1,412	\$ 2,873

Details related to lease term and discount rate were as follows:

	June 30, 2019
Weighted-average remaining lease term (in years)	4 years
Weighted-average discount rate	5.13%

Future minimum lease payments as of June 30, 2019 were as follows (in thousands):

	Operating Leases
2019 (Excluding the six months ended June 30, 2019)	\$ 2,737
2020	4,909
2021	3,296
2022	2,429
2023	2,347
Thereafter	1,634
<b>Total minimum payments <sup>(a)</sup></b>	<b>17,352</b>
Less: Imputed interest	1,940
<b>Present value of total minimum payments <sup>(b)</sup></b>	<b>\$ 15,412</b>

<sup>(a)</sup> Total minimum payments exclude executory costs, inclusive of insurance, maintenance, and taxes, of \$6.9 million ; minimum payments also have not been reduced by sublease rentals of \$6.1 million due in the future under noncancelable subleases.

<sup>(b)</sup> \$10.4 million is included in Long-term lease liabilities and \$5.0 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. 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 June 30, 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 and six months ended June 30, 2019 and 2018 (in thousands):

<i>Consumer Media</i>	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	Revenue	\$ 2,620	\$ 3,884	\$ 5,106
Cost of revenue	803	1,028	1,636	2,021
Gross profit	1,817	2,856	3,470	7,346
Operating expenses	2,877	3,439	5,996	7,357
Operating income (loss)	\$ (1,060)	\$ (583)	\$ (2,526)	\$ (11)

<i>Mobile Services</i>	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	Revenue	\$ 6,997	\$ 6,719	\$ 13,936
Cost of revenue	1,865	2,134	3,913	4,450
Gross profit	5,132	4,585	10,023	10,973
Operating expenses	7,438	6,969	14,999	14,335
Operating income (loss)	\$ (2,306)	\$ (2,384)	\$ (4,976)	\$ (3,362)

<i>Games</i>	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	Revenue	\$ 6,048	\$ 5,121	\$ 11,758
Cost of revenue	1,655	1,456	3,325	3,273
Gross profit	4,393	3,665	8,433	7,311
Operating expenses	5,288	5,095	10,325	10,012
Operating income (loss)	\$ (895)	\$ (1,430)	\$ (1,892)	\$ (2,701)

<i>Napster</i>	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	Revenue	\$ 28,583	\$ —	\$ 52,920
Cost of revenue	23,026	—	43,422	—
Gross profit	5,557	—	9,498	—
Operating expenses	6,638	—	12,170	—
Operating income (loss)	\$ (1,081)	\$ —	\$ (2,672)	\$ —

<i>Corporate</i>	Quarter Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	Cost of revenue	\$ (67)	\$ 7	\$ (144)
Operating expenses	4,116	2,429	8,373	5,696
Operating income (loss)	\$ (4,049)	\$ (2,436)	\$ (8,229)	\$ (5,713)

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
United States	\$ 21,322	\$ 7,646	\$ 40,292	\$ 19,080
Europe	17,097	3,010	32,481	6,035
Rest of the World	5,829	5,068	10,947	10,259
Total net revenue	\$ 44,248	\$ 15,724	\$ 83,720	\$ 35,374

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

	June 30, 2019	December 31, 2018
United States	\$ 89,883	\$ 11,823
Europe	11,028	6,761
Rest of the World	2,902	1,151
Total long-lived assets	\$ 103,813	\$ 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. In May 2019, RealNetworks extended a short-term loan to Napster in the principal amount of \$1.1 million at an annual interest rate of 4.5%. 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.

#### Note 19 Subsequent Event

In August 2019, RealNetworks and Napster entered into a Loan and Security Agreement (the “Loan Agreement”) with a third-party financial institution. Under the terms of the Loan Agreement, the bank will extend a revolving line of credit not to exceed \$10 million in the aggregate. Advances on the revolving line of credit, which will be used for working capital and general corporate purposes, are based on a borrowing base that comprises accounts receivable and direct-to-consumer deposits. As of the date of this filing, no amounts are outstanding on the revolving line of credit.

Borrowings under the Loan Agreement are secured by a first priority security interest in the assets of RealNetworks and Napster. Advances bear interest at a rate equal to one-half of one percent point ( 0.5% ) above the greater of the prime rate or 5.5% , with monthly payments of interest only and principal due at the end of the two-year term. The Loan Agreement contains customary covenants, including financial covenants, minimum EBITDA levels, and maintaining an unrestricted cash balance of \$3.5 million .

## **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 within our free-to-play games 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 having a majority voting interest, owning 84% of Napster's outstanding equity. We consolidate Napster's financial results into our financial statements for fiscal periods following the closing of the acquisition, and Napster is reported as a separate segment in RealNetworks financial statements and related disclosures following the acquisition.

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 June 30, 2019, we had \$26.3 million in unrestricted cash and cash equivalents, compared to \$35.6 million as of December 31, 2018. The 2019 decrease in cash and cash equivalents compared to the prior year end amount was due to our ongoing cash flows used in operating activities, which totaled \$16.1 million in the first six months of 2019, and Napster's net repayment of debt of \$4.3 million, offset in part by the January 2019 acquisition of Napster, which added \$9.9 million of cash.

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

	Quarter Ended June 30,				Six months ended June 30,			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
Total revenue	\$ 44,248	\$ 15,724	\$ 28,524	181 %	\$ 83,720	\$ 35,374	\$ 48,346	137 %
Cost of revenue	27,282	4,625	22,657	490 %	52,152	9,761	42,391	434 %
Gross profit	16,966	11,099	5,867	53 %	31,568	25,613	5,955	23 %
Gross margin	38%	71%			38%	72%		
Operating expenses	26,357	17,932	8,425	47 %	51,863	37,400	14,463	39 %
Operating loss	\$ (9,391)	\$ (6,833)	\$ (2,558)	(37)%	\$ (20,295)	\$ (11,787)	\$ (8,508)	(72)%

In the second quarter of 2019, our total consolidated revenue increased \$28.5 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's revenues for the second quarter of 2019 totaled \$28.6 million. For the second quarter of 2019 compared to the prior year period, our Games and Mobile Services segment revenues increased by \$0.9 million and \$0.3 million,

respectively, offset by declines in our Consumer Media segment of \$1.3 million . See below for further discussion of our segment results.

Cost of revenue increased by \$22.7 million for the quarter ended June 30, 2019 , primarily due to the consolidation of Napster's results from the acquisition date forward. Napster's cost of revenue for the second quarter of 2019 totaled \$23.0 million and its gross margin was 19 percent .

Operating expenses increased by \$8.4 million in the quarter ended June 30, 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 second quarter of 2019 totaled \$6.6 million . Operating expenses within Corporate in the second quarter of 2019 included \$0.6 million of restructuring costs due to the changes within our Games segment, \$0.4 million of acquisition-related costs and \$0.3 million of change in fair value of the Napster contingent consideration liability.

For the six months ended June 30, 2019, our total consolidated revenue increased \$48.3 million as compared to the prior year, primarily due to the consolidation of Napster's results from the acquisition date forward. Napster's revenue for the six months ended June 30, 2019 totaled \$52.9 million . For the six months ended June 30, 2019 compared to the prior year period, our Games segment revenue increased by \$1.2 million , offset by declines in our Consumer Media segment and Mobile Services segment of \$4.3 million and \$1.5 million , respectively. See below for further discussion of our segment results.

Cost of revenue increased by \$42.4 million in the six months ended June 30, 2019 as compared to the prior year period primarily due to the consolidation of Napster's results from the acquisition date forward. Napster's cost of revenue for the six months ended June 30, 2019 totaled \$43.4 million and its gross margin was 18 percent . This increase was offset by a \$0.4 million decrease in our Consumer Media segment and a \$0.5 million decrease in our Mobile Services segment.

Operating expenses increased by \$14.5 million in the six months ended June 30, 2019 as compared with the prior year primarily due to the consolidation of Napster's results from the acquisition date forward. Napster's operating expenses for the six months ended June 30, 2019 totaled \$12.2 million , including \$0.2 million of acquisition-related costs. Operating expenses within Corporate in the six months ended June 30, 2019 included an additional \$1.0 million of acquisition-related costs and \$0.3 million of change in fair value of the Napster contingent consideration liability. Also contributing to the overall increase was \$0.5 million increase in facilities expense. Included in the results for the six months ended June 30, 2018, there was a benefit of \$0.5 million in lease exit and related charges following the renegotiation of certain leases.

### **Segment Operating Results**

#### *Consumer Media*

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

	Quarter Ended June 30,				Six Months Ended June 30,			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
Revenue	\$ 2,620	\$ 3,884	\$ (1,264)	(33)%	\$ 5,106	\$ 9,367	\$ (4,261)	(45)%
Cost of revenue	803	1,028	(225)	(22)%	1,636	2,021	(385)	(19)%
Gross profit	1,817	2,856	(1,039)	(36)%	3,470	7,346	(3,876)	(53)%
Gross margin	69%	74%			68%	78%		
Operating expenses	2,877	3,439	(562)	(16)%	5,996	7,357	(1,361)	(18)%
Operating income (loss)	\$ (1,060)	\$ (583)	\$ (477)	(82)%	\$ (2,526)	\$ (11)	\$ (2,515)	NM

Total Consumer Media revenue for the quarter ended June 30, 2019 decreased \$1.3 million as compared to the same quarter in 2018, due primarily to continued lower software license revenues of \$0.9 million and subscription services revenues of \$0.2 million, described more fully below. The overall decrease in revenues was also impacted by lower product sales, advertising and other revenues of \$0.2 million.

#### *Software License*

For our software license revenues, the \$0.9 million decrease was primarily due to the continuing decline of shipments by our customers and the timing of contract renewals. The bulk of these licenses are in China and, in the near term, we expect to see further declines.

### Subscription Services

For our subscription services revenues, the \$0.2 million decrease was primarily due to continuing declines in our legacy subscription products, which will continue to organically decline.

Cost of revenue for the quarter ended June 30, 2019 decreased \$0.2 million compared with the year-earlier period. This was primarily due to reductions in salaries and benefits, bandwidth and license royalty costs.

Operating expenses decreased \$0.6 million as compared with the year-earlier period, primarily due to reductions in salaries, benefits, and professional services fees.

Total Consumer Media revenue for the six months ended June 30, 2019 decreased \$4.3 million as compared to the prior year, due primarily to lower software license revenues of \$3.5 million and subscription services revenues of \$0.4 million, described more fully below. The overall decrease in revenues was also impacted by lower product sales, advertising and other revenues of \$0.4 million.

### Software License

For our software license revenues, the \$3.5 million decrease was primarily due to the continuing decline of shipments by our customers and the timing of contract renewals. The bulk of these licenses are in China and, in the near term, we expect to see further declines.

### Subscription Services

For our subscription services revenues, the \$0.4 million decrease was primarily due to continuing declines in our legacy subscription products, which will continue to organically decline.

Cost of revenue for the six months ended June 30, 2019 decreased \$0.4 million compared with the prior-year period. This was primarily due to reductions in salaries and benefits, bandwidth and license royalty costs.

Operating expenses decreased \$1.4 million as compared with the prior-year 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 June 30,				Six Months Ended June 30,			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
Revenue	\$ 6,997	\$ 6,719	\$ 278	4 %	\$ 13,936	\$ 15,423	\$ (1,487)	(10)%
Cost of revenue	1,865	2,134	(269)	(13)%	3,913	4,450	(537)	(12)%
Gross profit	5,132	4,585	547	12 %	10,023	10,973	(950)	(9)%
Gross margin	73%	68%			72%	71%		
Operating expenses	7,438	6,969	469	7 %	14,999	14,335	664	5 %
Operating loss	\$ (2,306)	\$ (2,384)	\$ 78	3 %	\$ (4,976)	\$ (3,362)	\$ (1,614)	(48)%

Total Mobile Services revenue increased by \$0.3 million in the quarter ended June 30, 2019 compared with the prior-year period. The revenue increase was due to higher software license revenues of \$0.5 million, offset in part by a \$0.2 million decrease in subscription services revenues, described more fully below.

### Software License

For our software license revenues, the increase was primarily due to revenue from sales of our new SAFR product in the second quarter of 2019.

### Subscription Services

The decline in our subscription services revenue was due to lower revenue of \$0.5 million in our ringback tones business, partially offset by an increase in our messaging platform business of \$0.4 million.

Cost of revenue decreased by \$0.3 million in the quarter ended June 30, 2019 compared with the prior-year period, due primarily to reductions in salaries, benefits and infrastructure expenses.

Operating expenses increased by \$0.5 million for the quarter ended June 30, 2019 compared with the year-earlier period primarily due to increased salaries, benefits and marketing expenses related to increased efforts towards our growth initiatives.

Total Mobile Services revenue decreased by \$1.5 million in the six months ended June 30, 2019 compared with the prior-year period. The revenue decrease was due to declines of \$1.2 million in subscription services revenues and \$0.2 million in software license revenues, described more fully below.

#### *Software License*

For our software license revenues, the decrease was primarily the result of revenue recognition timing which caused more revenue to be recognized in the first quarter of 2018 for our integrated RealTimes products offered to mobile carriers; this was partially offset by the second quarter 2019 recognition of revenue from sales of our new SAFR product.

#### *Subscription Services*

For our subscription services, the decrease was primarily the result of lower revenue from our ringback tones business.

Cost of revenue decreased by \$0.5 million in the six months ended June 30, 2019 compared with the prior-year period, due primarily to reductions in salaries, benefits, and infrastructure expenses.

Operating expenses increased by \$0.7 million for the six months ended June 30, 2019 compared with the year-earlier period primarily due to increased salaries, benefits, and marketing expenses.

#### *Games*

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

	Quarter Ended June 30,				Six Months Ended June 30,			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
Revenue	\$ 6,048	\$ 5,121	\$ 927	18%	\$ 11,758	\$ 10,584	\$ 1,174	11%
Cost of revenue	1,655	1,456	199	14%	3,325	3,273	52	2%
Gross profit	4,393	3,665	728	20%	8,433	7,311	1,122	15%
Gross margin	73%	72%			72%	69%		
Operating expenses	5,288	5,095	193	4%	10,325	10,012	313	3%
Operating loss	\$ (895)	\$ (1,430)	\$ 535	37%	\$ (1,892)	\$ (2,701)	\$ 809	30%

Total Games revenue increased \$0.9 million for the quarter ended June 30, 2019 as compared with the year-earlier period due primarily to increases of \$0.7 million in our subscription services and advertising and other revenues and \$0.2 million in product sales revenues, described more fully below. Our Games segment continues to shift its focus toward free-to-play games that offer in-game purchases of virtual goods, the revenue from which is included within product sales, and away from premium mobile games that require a one-time purchase. While certain new premium mobile games will be offered, this shift in focus resulted in restructuring costs of \$0.6 million for the quarter, recorded in the Corporate segment.

#### *Subscription Services*

Our subscription sales increased \$0.4 million as a result of new subscription offerings for our Original Stories.

#### *Product Sales*

Our product sales increased \$0.2 million as a result of higher in-game purchases of \$0.7 million compared to the prior-year period, partially offset by lower sales of games of \$0.5 million as we continue to shift toward free-to-play games that offer in-game purchases of virtual goods and away from premium mobile games that require a one-time purchase.

#### *Advertising and Other*

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

Cost of revenue increased \$0.2 million in the quarter ended June 30, 2019 when compared with the prior-year period due to higher app store fees of \$0.3 million, partially offset by lower publisher license and service royalties of \$0.1 million.

Operating expenses increased \$0.2 million in the quarter ended June 30, 2019 when compared with the prior-year period, due to higher marketing expenses.

Total Games revenue increased \$1.2 million for the six months ended June 30, 2019 as compared with the year-earlier period due primarily to increases of \$1.4 million in our subscription services and advertising and other revenues, partially offset by a decrease of \$0.2 million in product sales revenues, described more fully below.

#### *Subscription Services*

Our subscription sales increased \$0.7 million as a result of new subscription offerings for our Original Stories games.

*Product Sales*

Our product sales decreased \$0.2 million as a result of lower sales of games revenue of \$1.6 million compared to the prior-year period, partially offset by higher in-game purchases of \$1.4 million as we continue to shift toward free-to-play games that offer in-game purchases of virtual goods and away from premium mobile games that require a one-time purchase.

*Advertising and Other*

Our advertising and other revenues increased \$0.7 million as compared to the prior-year period primarily as a result of offering more in-game advertising within our free-to-play and other mobile games.

Cost of revenue increased \$0.1 million in the six months ended June 30, 2019 when compared with the prior-year period due to higher app store fees of \$0.4 million, partially offset by lower publisher license and service royalties of \$0.2 million and facilities costs of \$0.1 million.

Operating expenses increased \$0.3 million in the six months ended June 30, 2019 when compared with the prior-year period, largely due to professional services fees of \$0.2 million from increased developer costs and marketing fees \$0.5 million, partially offset by lower salaries and benefits of \$0.2 million.

*Napster*

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

	Quarter Ended June 30,			Six Months Ended June 30,		
	2019	2018	\$ Change	2019	2018	\$ Change
Revenue	\$ 28,583	\$ —	\$ 28,583	\$ 52,920	\$ —	\$ 52,920
Cost of revenue	23,026	—	23,026	43,422	—	43,422
Gross profit	5,557	—	5,557	9,498	—	9,498
Gross margin	19%	—%		18%	—%	
Operating expenses	6,638	—	6,638	12,170	—	12,170
Operating loss	\$ (1,081)	\$ —	\$ (1,081)	\$ (2,672)	\$ —	\$ (2,672)

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 \$14.8 million of direct to consumer revenues and \$13.8 million of revenues resulting from services sold through distribution partners in the quarter ended June 30, 2019.

Cost of revenues primarily consist of content royalties related to music label and publishing rights for the 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 quarter ended June 30, 2019 included \$0.4 million of amortization expense related to intangible assets acquired.

Operating expenses primarily include salaries, benefits, and professional services fees. In the quarter ended June 30, 2019, Napster's operating expenses included \$0.8 million of amortization expense related to intangible assets acquired.

For the six months ended June 30, 2019 Napster's revenues included \$27.0 million in direct to consumer revenues and \$25.9 million of revenues resulting from services sold through distribution partners. Napster's direct to consumer revenues in the six months ended June 30, 2019 were reduced by \$0.7 million of unfavorable impact from the fair value measurement of Napster deferred revenue upon acquisition.

Napster's cost of revenues for the six months ended June 30, 2019 included \$0.7 million of amortization expense related to intangible assets acquired.

In the six months ended June 30, 2019, Napster's operating expenses included \$1.4 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 June 30,				Six Months Ended June 30,			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
Cost of revenue	\$ (67)	\$ 7	\$ (74)	NM	\$ (144)	\$ 17	\$ (161)	NM
Operating expenses	4,116	2,429	1,687	69 %	8,373	5,696	2,677	47 %
Operating loss	\$ (4,049)	\$ (2,436)	\$ (1,613)	(66)%	\$ (8,229)	\$ (5,713)	\$ (2,516)	(44)%

Operating expenses increased by \$1.7 million in the quarter ended June 30, 2019 compared with the year-earlier period. The increase was primarily from \$0.6 million of higher restructuring costs in the second quarter of 2019 due to the changes within our Games segment described in Note 11 Restructuring Charges and \$0.4 million of costs associated with our acquisition of Napster. Note there are no other costs within Corporate related to our Napster segment. In addition, as described in more detail in Note 6 Fair Value Measurements, in the second quarter of 2019 we recorded the change in fair value of the Napster contingent consideration liability of \$0.3 million as an expense.

Operating expenses increased by \$2.7 million in the six months ended June 30, 2019 compared with the year-earlier period, primarily due to higher salaries, benefits, and professional fees driven by \$1.0 million of costs associated with our acquisition of Napster. The overall increase was also impacted by \$0.2 million of higher restructuring costs in the first six months of 2019 due to the action described above and the second quarter 2019 expense of \$0.3 million related to the Napster contingent consideration, also described above.

### 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 June 30,				Six Months Ended June 30,			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
Research and development	\$ 8,876	\$ 7,652	\$ 1,224	16 %	\$ 17,709	\$ 15,346	\$ 2,363	15 %
Sales and marketing	8,360	4,883	3,477	71 %	16,502	10,880	5,622	52 %
General and administrative	8,392	5,339	3,053	57 %	16,756	10,940	5,816	53 %
Restructuring and other charges	729	187	542	290 %	896	688	208	30 %
Lease exit and related charges	—	(129)	129	(100)%	—	(454)	454	(100)%
Total consolidated operating expenses	\$ 26,357	\$ 17,932	\$ 8,425	47 %	\$ 51,863	\$ 37,400	\$ 14,463	39 %

Research and development expenses increased by \$1.2 million in the quarter ended June 30, 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 second quarter of 2019 totaled \$1.8 million. This increase was offset by a decrease in salaries, benefits, and professional services of \$0.7 million related to our other segments.

Research and development expenses increased by \$2.4 million in the six months ended June 30, 2019 as compared with the year-earlier period, primarily due to the acquisition of Napster as discussed above. Napster's research and development expenses for the first half of 2019 totaled \$3.2 million. These increases were offset by a decrease in salaries, benefits, and professional services of \$1.1 million.

Sales and marketing expenses increased \$3.5 million in the quarter ended June 30, 2019 as compared with the year-earlier period, primarily due to the acquisition of Napster as discussed above. Napster's sales and marketing expenses for the second quarter of 2019 totaled \$2.5 million. The overall increase in sales and marketing expenses was also impacted by \$0.5 million increase in salaries, benefits, and professional services and \$0.5 million in marketing expenses due to increased efforts towards our growth initiatives.

Sales and marketing expenses increased \$5.6 million in the six months ended June 30, 2019 as 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 half of 2019 totaled \$4.6 million. The overall increase in sales and marketing expenses was also impacted by \$0.7 million

increase in salaries, benefits, and professional services and \$0.4 million in marketing expenses due to increased efforts towards our growth initiatives.

General and administrative expenses increased by \$3.1 million in the quarter ended June 30, 2019 as 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 second quarter of 2019 totaled \$2.4 million . We also incurred expenses of \$0.4 million in the second quarter of 2019 for costs associated with our acquisition of Napster. In addition, as described in more detail in Note 6 Fair Value Measurements, in the second quarter of 2019 we recorded the change in fair value of the Napster contingent consideration liability of \$0.3 million as an expense.

General and administrative expenses increased by \$5.8 million in the six months ended June 30, 2019 as 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 half of 2019 totaled \$4.4 million . We also incurred expenses of \$1.0 million in the first half of 2019 for costs associated with our acquisition of Napster. In addition, in the second quarter of 2019 we recorded the change in fair value of the Napster contingent consideration liability of \$0.3 million as an expense.

Restructuring and other charges consist of costs associated with the ongoing reorganization of our business operations and expense re-alignment efforts. 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 June 30,			Six Months Ended June 30,		
	2019	2018	\$ Change	2019	2018	\$ Change
Interest expense	\$ (43)	\$ —	\$ (43)	\$ (209)	\$ —	\$ (209)
Interest income	40	111	(71)	117	198	(81)
Gain (loss) on equity investment, net	—	—	—	12,338	—	12,338
Other income (expense), net	183	(42)	225	310	(83)	393
<b>Total other income (expense), net</b>	<b>\$ 180</b>	<b>\$ 69</b>	<b>\$ 111</b>	<b>\$ 12,556</b>	<b>\$ 115</b>	<b>\$ 12,441</b>

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

Total other income (expense), net, for the six months ended June 30, 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 June 30, 2019 and 2018 , we recognized income tax expense of \$0.2 million related to U.S. and foreign income taxes, respectively. During the six months ended June 30, 2019 and 2018, we recognized income tax expense of \$0.5 million and \$0.4 million , respectively, related to U.S. and foreign income taxes.

As of June 30, 2019 , RealNetworks has \$4.5 million in uncertain tax positions, of which \$4.1 million of unrecognized tax positions was 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.

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 second 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 June 30, 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 second 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):

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Working capital	\$ (37,964)	\$ 33,481
Cash, cash equivalents, and short-term investments	26,339	35,585
Restricted cash equivalents	2,124	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 \$74.1 million at June 30, 2019.

Cash and cash equivalents, and short-term investments decreased from December 31, 2018 due to our ongoing negative cash flow from operating activities, which totaled \$16.1 million in the first six months of 2019 , and Napster's net repayment of debt of \$4.3 million, offset in part by our January 2019 acquisition of Napster, which added \$9.9 million of net cash and cash equivalents. In the near term, we expect to see continued net negative cash flow from operating activities.

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):

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Cash used in operating activities	\$ (16,099)	\$ (12,730)
Cash provided by investing activities	11,411	954
Cash used in financing activities	(3,951)	(129)

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, fair value adjustments to contingent consideration liability and the effect of changes in certain operating assets and liabilities.

Cash used in operating activities was \$3.4 million higher in the six months ended June 30, 2019 as compared to the same period in 2018 . Cash used in operations was higher due to our higher operating loss recorded for the six months ended June 30, 2019 compared to the prior year period, partially offset by the net change in operating assets and liabilities.

For the six months ended June 30, 2019 , cash provided by investing activities of \$11.4 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. As fully described below, we are obligated to make further cash payments relating to the acquisition. The increase was offset in part by fixed asset purchases of \$0.9 million.

For the six months ended June 30, 2018 , cash provided by investing activities of \$1.0 million was due to sales and maturities of short-term investments, which totaled \$5.7 million . The maturities were offset by our purchase of a Netherlands-based game development studio in the second quarter of 2018 for net cash consideration of \$4.2 million and by fixed asset purchases of \$0.6 million.

Cash used by financing activities for the six months ended June 30, 2019 was \$4.0 million . This cash outflow was primarily due to Napster's April 30, 2019 payoff of its outstanding revolver, in the amount of \$4.9 million. Napster's borrowings are described in Note 10 Notes Payable - Napster .

Cash used in financing activities for the six months ended June 30, 2018 was \$0.1 million . This cash outflow was due to tax payments on shares withheld upon vesting of restricted stock, net of proceeds received from the employee stock purchase plan.

Three customers in our Napster segment accounted for more than 10% of trade accounts receivable as of June 30, 2019 , with the customers accounting for 26% , 13% and 10% 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. One customer in our Napster segment accounted for 14% of consolidated revenue, or \$12.0 million , during the six months ended June 30, 2019 . No individual customer accounted for 10% or more of our consolidated revenue during the six months ended June 30, 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 June 30, 2019. We also have recognized a liability for the estimated fair value of the contingent consideration. 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. As of June 30, 2019, the estimated fair value of the contingent consideration was \$11.9 million, with \$2.7 million recognized as a current liability and \$9.2 million as a long-term liability. Any future amounts RealNetworks pays for contingent consideration could vary materially from the estimated amounts we have accrued as of June 30, 2019.

In August, 2019, RealNetworks and Napster entered into the Loan Agreement with a third-party financial institution. Under the terms of the Agreement, which are further described in Note 19 Subsequent Event, the bank will extend a revolving line of credit not to exceed \$10 million in the aggregate. Advances on the revolving line of credit will be used for working capital and general corporate purposes. As of the date of this filing, we have not requested a draw on the revolving line of credit, though may do so in future.

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. 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 June 30, 2019, \$17.1 million of the \$26.3 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 June 30, 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 euro, Chinese yuan and Japanese yen. A hypothetical 10% increase or decrease in those currencies relative to the U.S. dollar as of June 30, 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 June 30, 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 June 30, 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 to June 30, 2019 . As of June 30, 2019 , our management has not fully assessed Napster's internal controls over financial reporting and will be testing Napster's 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 68% of total assets as of June 30, 2019 and approximately 63% of total revenues of the Company for the six months ended June 30, 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 second 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 potentially leading to the incurrence of debt, 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, several of which have been unsuccessful over recent years, 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.

In August 2019, RealNetworks and Napster entered into a loan agreement with a third-party financial institution. Under the terms of that agreement, the bank will extend a revolving line of credit not to exceed \$10 million in the aggregate. The loan agreement contains customary covenants, including financial covenants, minimum EBITDA levels, and maintaining an unrestricted cash balance of \$3.5 million. We have not had a debt facility in place in our recent past, therefore the entry into this facility introduces new risks to the company, including the risk that constraints around covenants may lead to less flexibility in operational decision making, the risk of default and various implications thereof, and the potential increase in liabilities on our balance sheet in the event that we draw down the line of credit. The occurrence of any of these risks would negatively impact our financial results and stock price.

***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, or 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, however, Napster will continue to operate as an independent business with its own board of directors, strategy, and leadership team. 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 in the past extended loans to Napster and may do so in the future.

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 and RealNetworks assumes no responsibility for these liabilities, 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, both of which we have experienced at various times in our past.

Moreover, in order to grow our new 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. As we have experienced, we may not realize a sufficient return, or may experience losses, on these investments, thereby further straining our limited cash resources and negatively affecting our ability to pursue other needed growth or strategic opportunities.

Sustaining and growing our businesses, and managing our constrained 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 further impair our operations and financial results to a material degree.

Furthermore, our products and services have been in the past and may be in the future 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, as we have in the past, 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 ability to sustain or grow 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. As we have recently experienced in our China business, the further 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. See Note 5 Acquisitions, for further information related to Napster. The total carrying value of our goodwill and definite-lived intangible assets as of June 30, 2019 was \$87.0 million.

***Continued loss of revenue from our subscription services is likely to 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. 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. 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, as they have on occasion in the past, 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. For example, our business in China could be negatively affected by an actual or perceived lack of stability or consistency in U.S.-China trade policy. 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 at RealNetworks or our material subsidiaries, 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. These risks also apply to our material subsidiaries, most notably Napster, which has experienced a high level of turnover.

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 such as the consolidation of Napster's financial results into our financial statements.

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, or 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 the 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 January 2019 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 consolidated 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 consolidated financial results.

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 our consolidated financial results, 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: August 5, 2019

## INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
2.2	<a href="#"><u>First Amendment to Purchase Agreement, dated as of June 11, 2019, by and between RealNetworks Digital Music of California, Inc., a California corporation (Buyer) and Rhapsody Applebee, LLC, a Delaware limited liability company (Seller)</u></a>
10.1 *	<a href="#"><u>Loan and Security Agreement, dated as of August 1, 2019, by and among RealNetworks, Inc., Rhapsody International Inc., RealNetworks Digital Music of California, Inc., and Western Alliance Bank</u></a>
31.1	<a href="#"><u>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</u></a>
31.2	<a href="#"><u>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</u></a>
32.1	<a href="#"><u>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</u></a>
32.2	<a href="#"><u>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</u></a>
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

\* Portions of the exhibit have been omitted.

## FIRST AMENDMENT TO PURCHASE AGREEMENT

This First Amendment to Purchase Agreement (the “**Amendment**”), dated as of June 11, 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**”).

### RECITALS

- A. Seller and Buyer are parties to the certain Purchase Agreement dated as of January 18, 2019 (the “**Agreement**”).
- B. The parties wish to amend the Agreement to reflect certain respects.

NOW, THEREFORE, the parties agree as follows:

- 1. Definitions. Capitalized terms not otherwise defined in this Amendment shall have the meanings given in the Agreement.
- 2. Amendment. Section 1.03(a)(ii) and (iii) of the Agreement are amended and restated as follows:
  - (ii) \$800,000 to be paid upon the earlier of (x) 5 days after receipt by Buyer of the Payment Authorization, (y) 90<sup>th</sup> day after the effective date of this Amendment, 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) On each anniversary of the Closing, 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
- 2. Effect. Except as set forth herein, the Agreement remains in full force and effect as originally set forth.
- 3. Counterparts. This Amendment may be executed in counterparts, all such executed counterparts shall constitute the same agreement, and the signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment 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 M. Parham

Name: Michael M. Parham

Title: CEO

**RHAPSODY INTERNATIONAL INC., A DELAWARE CORPORATION**

**REALNETWORKS, INC., A WASHINGTON CORPORATION**

**REALNETWORKS DIGITAL MUSIC OF CALIFORNIA, INC., A CALIFORNIA CORPORATION**

**WESTERN ALLIANCE BANK, AN ARIZONA CORPORATION**

**LOAN AND SECURITY AGREEMENT**

*Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed*

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This **Loan And Security Agreement** is entered into as of August 1, 2019, by and among **Western Alliance Bank, an Arizona corporation** (“Bank”), **Rhapsody International Inc., a Delaware corporation** (“Rhapsody”), **RealNetworks Digital Music of California, Inc. , a California corporation** (“RN DMC”) and **RealNetworks, Inc., a Washington corporation** (“RealNetworks”, and together with Rhapsody and RN DMC, each a “Borrower” and collectively, “Borrowers”).

### **Recitals**

Borrowers wish to obtain credit from time to time from Bank, and Bank desires to extend credit to Borrowers. This Agreement sets forth the terms on which Bank will advance credit to Borrowers, and Borrowers will repay the amounts owing to Bank.

### **Agreement**

The parties agree as follows:

#### **1. Definitions and Construction.**

1. **Definitions.** As used in this Agreement, the following terms shall have the following definitions:

“ABN Amro” means ABN AMRO Bank N.V.

“ABN Amro Facility” means that certain Fifteen Million Dollar (\$15,000,000) line of credit extended by ABN Amro to Napster Lux.

“ABN Amro Guaranteed Indebtedness” means the unsecured corporate guarantee in an amount payable not to exceed the lesser of (i) five percent (5.0%) percent of the outstanding balance on the ABN Amro Facility and (ii) Seven Hundred Fifty Thousand Dollars (\$750,000), pursuant to the terms of that certain Unsecured Guarantee dated as of October 30, 2017 issued by Rhapsody to ABN Amro.

“Accounts” means all presently existing and hereafter arising accounts, contract rights, payment intangibles, and all other forms of obligations owing to a Borrower arising out of the sale or lease of goods (including, without limitation, the licensing of software and other technology) or the rendering of services by a Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by a Borrower and each Borrower’s Books relating to any of the foregoing and for the avoidance of doubt, including all Eligible Accounts and all Direct To Consumer Subscription Deposits.

“Advance” or “Advances” means a cash advance or cash advances under the Revolving Facility.

“Affiliate” means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person’s senior executive officers, directors, and partners.

“Bank Expenses” means all: reasonable and documented costs or expenses (including reasonable and documented attorneys’ fees and expenses) incurred in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; reasonable and documented Collateral audit fees; and Bank’s reasonable, and documented attorneys’ fees and expenses incurred in amending, enforcing or defending the Loan Documents (including fees and expenses of appeal), incurred before, during and after an Insolvency Proceeding, whether or not suit is brought.

“Borrower’s Books” means all of a Borrower’s books and records including: ledgers; records concerning such Borrower’s assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

“Borrowing Base” means an amount equal to (i) eighty percent (80%) of Eligible Accounts, net of pre-paid deposits, offsets, and contras related to each specific account debtor, plus (ii) seventy-five percent (75%) of the Direct

To Consumer Subscription Deposits for U.S. based credit card processors billed and collected by Borrowers in the U.S. for the prior one and a half (1.50) months, all as determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrowers; provided, however, such Direct to Consumer Subscription Deposits shall only comprise up to thirty-five percent (35%) of the Borrowing Base.

“Business Day” means any day that is not a Saturday, Sunday, or other day on which banks in the State of California are authorized or required to close.

“Cash Management Obligations” means the outstanding obligations of Borrowers with respect to Cash Management Services provided by the Bank.

“Cash Management Sublimit” means a sublimit for cash management transactions under the Revolving Line not to exceed Two Hundred Fifty Thousand Dollars (\$250,000).

“Change in Control” shall mean a transaction in which any “person” or “group” (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of a sufficient number of shares of all classes of stock then outstanding of a Borrower ordinarily entitled to vote in the election of directors, empowering such “person” or “group” to elect a majority of the Board of Directors of such Borrower, who did not have such power before such transaction.

“Closing Date” means the date of this Agreement.

“Closing Date Letters of Credit” means (a) the letter of credit issued by Bank of America in favor of 1501 First Avenue South Limited Partnership, a Washington limited partnership, in the amount of One Million Seven Hundred Fifty Thousand Dollars (\$1,750,000), and (b) the letter of credit issued by Bank of America in favor of Columbia Center Property LLC, c/o Beacon Capital Partners, LLC, in the amount of Seven Hundred Ten Thousand Dollars (\$710,000), which letters of credit have been fully cash collateralized prior to the Closing Date.

“Code” means the California Uniform Commercial Code.

“Collateral” means the property described on Exhibit A attached hereto; provided that Collateral shall not include any Excluded Assets.

“Collection Account” means the deposit account maintained with Bank into which all Collections received are to be deposited in accordance with Section 2.5 hereof.

“Collections” means all payments from or on behalf of an Account debtor with respect to Accounts.

“Contingent Obligation” means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another; (ii) any obligations with respect to undrawn letters of credit, corporate credit cards, or merchant services issued or provided for the account of that Person; and (iii) all obligations arising under any agreement or arrangement designed to protect such Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term “Contingent Obligation” shall not include endorsements for collection or deposit in the ordinary course of business or product warranties given in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by Bank in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

“Copyrights” means any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof.



“Coverage Ratio Asset Base” means an amount equal to (i) one hundred percent (100%) Eligible Accounts, net of pre-paid deposits, offsets, and contras related to each specific account debtor, plus (ii) one hundred percent (100%) of the Direct To Consumer Subscription Deposits for U.S. based credit card processors billed and collected by Borrowers in the U.S. for the prior one and a half (1.50) months, all as determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrowers; provided, however, such Direct to Consumer Subscription Deposits shall only comprise up to thirty-five percent (35%) of the Borrowing Base.

“Credit Extension” means each Advance, the Cash Management Obligations, the Letter of Credit Obligations, the FX Amount, or any other extension of credit by Bank for the benefit of Borrowers hereunder.

“Daily Balance” means the amount of the Obligations owed at the end of a given day.

“Direct To Consumer Subscription Deposits” means monthly subscription deposits generated by Borrower through United States based credit card processors and billed and collected by Borrower in the United States.

“EBITDA” means, for RealNetworks and its Subsidiaries on a consolidated basis and excluding the effects of purchase accounting, net profit before tax plus (i) interest expense, (ii) depreciation expense (iii) amortization expense, (iv) fees (including attorneys’ fees), expenses and other charges incurred in connection with the negotiation, drafting, closing, amendment, restatement, supplement, modification or waiver of this Agreement or any of the other Loan Documents, (v) any proceeds from business interruption insurance received, to the extent the associated losses arising out of the event that resulted in the payment of such business interruption proceeds were included in computing net profit, (vi) non-cash expenses resulting from any employee benefit or management compensation plan or the grant of stock appreciation or similar rights, stock options, restricted stock or other rights or equity incentive programs to employees pursuant to a written plan or agreement, (vii) salary, benefit and other direct savings resulting from workforce reductions, (viii) severance or relocation costs or expenses, (ix) any losses from foreign currency transactions, (x) fees (including reasonable, out-of-pocket and documented attorneys’ fees), expenses and other charges incurred in connection with the acquisition of equity interests in, and financial integration of Rhapsody and its Subsidiaries, and (xi) other extraordinary, non-recurring and/or non-cash losses and expenses incurred during such period.

“Eligible Accounts” means those Accounts that arise in the ordinary course of any Borrower’s business that comply with all of Borrower’s representations and warranties to Bank set forth in Section 5.4; provided, that (i) in no case shall Eligible Accounts include any Direct To Consumer Subscription Deposits and (ii) standards of eligibility may be fixed and revised from time to time by Bank in good faith and in Bank’s reasonable judgment and upon notification thereof to Borrowers in accordance with the provisions hereof. Unless otherwise agreed to by Bank, Eligible Accounts shall not include the following:

- (a) Accounts that the account debtor has failed to pay within ninety (90) days of invoice date;
- (b) Accounts with respect to an account debtor, thirty percent (30%) (or thirty-five percent (35%), with respect to Accounts owing by [ ● ], a Delaware limited liability company, and its affiliates) of whose Accounts the account debtor has failed to pay within ninety (90) days of invoice date;
- (c) Accounts with respect to which the account debtor is an officer, employee, or agent of Borrower;
- (d) Accounts with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold, or other terms by reason of which the payment by the account debtor may be conditional;
- (e) Unbilled Accounts (other than unbilled Accounts up to fifty (50%) of the Borrowing Base which are not unbilled for greater than thirty (30) days (or ninety (90) days with respect to Accounts of [ ● ], a Delaware limited liability company, and its affiliates);
- (f) Prebillings, prepaid deposits, retention billings, or progress billings;
- (g) Accounts with respect to which the account debtor is an Affiliate of Borrower (for the avoidance of doubt, Telefonica and ePlus shall not be deemed Affiliates of Borrower for this purpose);
- (h) Accounts with respect to which the account debtor does not have its principal place of business in the United States, except for such Accounts that are approved in writing by Bank on a case-by-case basis;
- (i) Accounts with respect to which the account debtor is the United States or any department, agency, or instrumentality of the United States unless Borrower has assigned its payment rights to Bank and the assignment has been acknowledged under the Federal Assignment of Claims Act of 1940, as amended;

(j) Accounts with respect to which Borrower is liable to the account debtor for goods sold or services rendered by the account debtor to Borrower or for deposits or other property of the account debtor held by Borrower, but only to the extent of any amounts owing to the account debtor against amounts owed to Borrower;

(k) Accounts with respect to an account debtor, including Subsidiaries and Affiliates, whose total obligations to Borrower exceed thirty percent (30%) of all Accounts, to the extent such obligations exceed the aforementioned percentage, except as approved in writing by Bank;

(l) Accounts with respect to which the account debtor disputes liability or makes any claim with respect thereto as to which Bank believes, in its good faith business discretion, that there may be a basis for dispute (but only to the extent of the amount subject to such dispute or claim), or is subject to any Insolvency Proceeding, or becomes insolvent, or goes out of business; and

(m) Accounts the collection of which Bank reasonably determines in its good faith business discretion to be doubtful.

“Equipment” means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which a Borrower has any interest.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

“Event of Default” has the meaning assigned in Article 8 .

“Excluded Accounts” means any deposit account or securities account that (i) contains solely funds for payroll, taxes or employee benefits or (ii) contains solely funds held in trust for third parties.

“Excluded Assets” means (a) Excluded Shares, (b) Excluded Accounts, (c) any rights or interest in any contract, lease, permit, license, or license agreement covering real or personal property of any Borrower if under the terms of such contract, lease, permit, license, or license agreement, or applicable law with respect thereto, the grant of a security interest or lien therein is prohibited as a matter of law or constitutes a breach or default under or results in the termination of or requires consent not obtained under the terms of such contract, lease, permit, license, or license agreement and such prohibition or restriction has not been waived or the consent of the other party to such contract, lease, permit, license, or license agreement has not been obtained, provided that (i) the foregoing exclusions of this clause (c) shall in no way be construed (x) to apply to the extent that any described prohibition or restriction is unenforceable under Section 9-406, 9-407, 9-408, or 9-409 of the Code or other applicable law, or (y) to apply to the extent that any consent or waiver has been obtained, or is hereafter obtained, that would permit Bank’s security interest or Lien notwithstanding the prohibition or restriction on the pledge of such contract, lease, permit, license, or license agreement and (ii) the foregoing exclusions of clauses (x) and (y) shall in no way be construed to limit, impair, or otherwise affect any of Bank’s continuing security interests in and Liens upon any rights or interests of any Borrower in or to (1) monies due or to become due under or in connection with any described contract, lease, permit, license, license agreement, or equity Interests, or (2) any proceeds from the sale, license, lease, or other dispositions of any such contract, lease, permit, license, license agreement, or equity interests, (d) any United States intent-to-use trademark applications for which an amendment to allege use has not been submitted and accepted by the United States Patent and Trademark Office pursuant to 15 U.S.C. Section 1060(a) (or any successor provision), provided that, upon such acceptance, such intent-to-use trademark application shall automatically be considered Collateral, (e) equipment the subject of a purchase money Lien permitted pursuant to clause (c) of the definition of “Permitted Liens”, to the extent the granting of a security interest hereunder is prohibited by the documents evidencing such Lien, (f) any equity interests in (x) a joint venture or non-wholly-owned Subsidiary to the extent that granting a security interest in or Lien on such equity interests is not permitted by the governing documents of such joint venture or such non-wholly-owned Subsidiary or would require the consent of any Person who owns equity interests in such joint venture or such non-wholly-owned Subsidiary (other than any Borrower or any Subsidiary) and whose consent has not been obtained, and (g) the Assigned Property (as defined in that certain Assignment Agreement by and between RHAPSODY INTERNATIONAL INC., and Moon Glow, Series 82 of Allied Security Trust I, a Delaware statutory trust with an address at Attention: Jake Handy, Fenwick & West LLP, 555 California St, 12th Floor, San Francisco, California 94104, dated as of September 29, 2017).

“Excluded Pledgee” means (a) a Foreign Subsidiary which is (i) a “controlled foreign corporation” (as defined in the U.S. Internal Revenue Code of 1986, and the United States Treasury Department regulations promulgated thereunder, as amended from time to time), (ii) a direct or indirect Foreign Subsidiary owned by a Foreign Subsidiary described in clause (i), or (iii) a Foreign Subsidiary that has no material assets other than equity interests of one or more Subsidiaries described in clause (i), and (b) any Subsidiary (other than a Foreign Subsidiary), substantially all of the assets of which consist of equity interests of one or more Persons described in the foregoing clause (a).

“Excluded Shares” means any voting equity interests in excess of sixty-five percent (65%) of the voting equity interests of any Excluded Pledgee.

“Foreign Exchange Reserve Percentage” is defined in Section 2.1(c)(ii) hereof.

“Foreign Subsidiary” means a Subsidiary that is incorporated or otherwise chartered in a jurisdiction other than the United States, and state thereof or the District of Columbia.

“FX Amount” is defined in Section 2.1(c)(ii) hereof.

“FX Contracts” are defined in Section 2.1(c)(ii) hereof.

“GAAP” means generally accepted accounting principles as in effect from time to time.

“Guarantor” is any Person providing a Guaranty in favor of Bank.

“Guaranty” is any guarantee of all or any part of the Obligations, as the same may from time to time be amended, restated, modified or otherwise supplemented.

“Indebtedness” means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including without limitation reimbursement and other obligations with respect to surety bonds and letters of credit, but excluding trade payables and accrued expenses in the ordinary course of business, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations and (d) all Contingent Obligations.

“Insolvency Proceeding” means any proceeding commenced by or against any person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

“Intellectual Property Collateral” means all of Borrower’s right, title, and interest in and to the following: Copyrights, Trademarks and Patents; all trade secrets, all design rights, claims for damages by way of past, present and future infringement of any of the rights included above, all licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights; all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and all proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

“Intellectual Property Security Agreement” means the Intellectual Property Security Agreement, dated as of the date hereof, between the Borrowers and Bank.

“International Sublimit” means a sublimit for foreign exchange services and export, import, and standby letters of credit under the Revolving Line not to exceed Two Hundred Fifty Thousand Dollars (\$250,000).

“Inventory” means all inventory in which a Borrower has or acquires any interest, including work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or at any time hereafter owned by or in the custody or possession, actual or constructive, of a Borrower, including such inventory as is temporarily out of its custody or possession or in transit and including any returns upon

any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and Borrower's Books relating to any of the foregoing.

"Investment" means any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance (other than advances to trade creditors in the ordinary course of business) or capital contribution to any Person.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Letter of Credit" or "Letters of Credit" is defined in Section 2.1(c)(i) hereof.

"Letter of Credit Obligations" means the aggregate amount of outstanding obligations incurred by Bank in connection with Bank's issuance of Letters of Credit to Borrowers.

"Lien" means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"Loan Documents" means, collectively, this Agreement, any note or notes executed by Borrower, the Intellectual Property Security Agreement, and any other agreement entered into in connection with this Agreement, all as amended or extended from time to time.

"Material Adverse Effect" means a material adverse effect on (i) the business operations, properties, assets or condition (financial or otherwise) of Borrowers and their Subsidiaries taken as a whole; (ii) the ability of Borrowers and their Subsidiaries, taken as a whole, to fully and timely perform its Obligations; (iii) the legality, validity, binding effect, or enforceability against Borrower of any Loan Document to which it is a party; (iv) the rights, remedies and benefits available to, or conferred upon Bank under any Loan Document, or (v) the aggregate value of, or the priority of Bank's security interests, in the Collateral.

"Napster Lux" means Napster Luxembourg S.à r.l, a wholly owned Subsidiary of Borrower formed under the laws of Luxembourg.

"Negotiable Collateral" means all letters of credit of which a Borrower is a beneficiary, notes, drafts, instruments, securities, documents of title, and chattel paper, and a Borrower's Books relating to any of the foregoing.

"Obligations" means all debt, principal, interest, the Termination Fee (if applicable), Bank Expenses and other amounts owed to Bank by a Borrower pursuant to this Agreement or any other agreement, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from a Borrower to others that Bank may have obtained by assignment or otherwise.

"Patents" means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"Periodic Payments" means all installments or similar recurring payments that Borrowers may now or hereafter become obligated to pay to Bank pursuant to the terms and provisions of any instrument, or agreement now or hereafter in existence between Borrowers and Bank.

"Permitted Indebtedness" means:

- (a) the Obligations;
- (b) Indebtedness existing on the Closing Date and disclosed in the Schedule;
- (c) Indebtedness secured by a lien described in clause (c) of the defined term "Permitted Liens" thereof; provided (i) such Indebtedness does not exceed the lesser of the cost or fair market value of the equipment financed with such Indebtedness and (ii) such Indebtedness does not exceed Two Million Five Hundred

Thousand Dollars (\$2,500,000) in the aggregate at any given time; provided, however, notwithstanding anything to the contrary herein and strictly for the purposes of this clause (c) of the definition of Permitted Indebtedness and for no other purpose, any obligations of a Person that are or would have been treated as operating leases or capital leases for purposes of GAAP prior to the issuance by the Financial Accounting Standards Board on February 25, 2016 of an Accounting Standards Update (the "ASU") shall continue to be accounted for as operating leases or capital leases (whether or not such operating lease obligations or capital lease obligations, as applicable, were in effect on such date) notwithstanding the fact that such obligations are required in accordance with the ASU (on a prospective or retroactive basis or otherwise) to be treated as capitalized lease obligations in accordance with GAAP;

(d) Indebtedness of Napster Lux incurred in connection with the ABN Amro Facility;

(e) Subordinated Debt;

(f) the ABN Amro Guaranteed Indebtedness;

(g) reimbursement obligations with respect to the Closing Date Letters of Credit until the date such letters of credit are set to expire or be renewed;

(h) Permitted Intercompany Loans;

(i) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (h) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon any Borrower or any of their Subsidiaries, as the case may be; and

(j) to the extent constituting Indebtedness, Investments permitted under clause (c) of the definition of "Permitted Investments".

"Permitted Intercompany Loans" means (i) intercompany loans outstanding as of the Closing Date, as disclosed in the Schedule as of the Closing Date, together with any interest thereon accrued in the ordinary course of business, (ii) additional intercompany loans not to exceed \$750,000 in the aggregate per fiscal year, net of any intercompany loans repaid during such fiscal year, and (iii) other intercompany loans which are subject to a subordination agreement in favor of Bank on terms and conditions acceptable to Bank in its sole discretion.

"Permitted Investment" means:

- (a) Investments of Borrowers in the equity interests of their Subsidiaries existing on the Closing Date and any other Investments existing on the Closing Date disclosed in the Schedule;
- (b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than one (1) year from the date of creation thereof and currently having rating of at least A-2 or P-2 from either Standard & Poor's Corporation or Moody's Investors Service, (iii) certificates of deposit maturing no more than one (1) year from the date of investment therein issued by Bank and (iv) Bank's money market accounts;
- (c) Investments (including debt obligations) to be paid in connection with settlement of [ ● ];
- (d) Investments of Subsidiaries (which are not Borrowers or Guarantors) in or to other Subsidiaries or Borrowers;
- (e) Investments by any Borrower or any Subsidiary in any other Borrower or Subsidiary, provided that such Investments shall not exceed \$250,000 in the aggregate in any fiscal year;
- (f) Investments by and among Borrowers and their Subsidiaries constituting transfer pricing practices, provided, however, that (x) such Investments are made when no Default or Event of Default has occurred and is continuing and such Investments are (I) incurred in the ordinary course of business consistent with past business practices and (II) made in respect of transfer pricing arrangements funded on a cost plus five percent (5.00%) (or less) basis and on terms that are in accordance with Section 482 of the IRC, and any state or foreign law equivalent, and supported by contemporaneous transfer pricing documentation required by applicable law or (y) (I) any such loans and advances made by a Borrower or Guarantor shall be evidenced by a promissory note pledged to Bank and (II) the amount of such Investments made by Borrower or Guarantor to Subsidiaries that are not a Borrower or Guarantor (together with outstanding investments permitted under Permitted

- Investments shall not exceed Seven Hundred Fifty Thousand Dollars (\$750,000) at any time outstanding (in each case determined without regard to any write-downs or write-offs);
- (g) to the extent constituting Investments, loans and guarantees permitted under the definition of “Permitted Indebtedness”; provided, however, that with respect to the Permitted Intercompany Loans, to the extent the borrower under such Permitted Intercompany Loan is a Borrower or Guarantor under this Agreement, then such Borrower or Guarantor shall not make any payments with respect to such Permitted Intercompany Loan in excess of Seven Hundred Fifty Thousand Dollars (\$750,000) per fiscal year prior to the Revolving Maturity Date;
  - (h) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business;
  - (i) Investments consisting of deposit and securities accounts permitted to be maintained outside of Bank under Section 6.7, in which Bank has a perfected security interest to the extent required under Section 6.7;
  - (j) Investments consisting of transactions permitted under Section 7.3 of this Agreement;
  - (k) Repurchases of stock permitted under Section 7.6; and
  - (l) other Investments in an aggregate amount not to exceed Two Hundred Fifty Thousand Dollars (\$250,000) in original cost outstanding at any time.

“Permitted Liens” means the following:

- (a) Any Liens existing on the Closing Date and disclosed in the Schedule or arising under this Agreement or the other Loan Documents;
- (b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings, provided the same have no priority over any of Bank’s security interests;
- (c) Liens (i) upon or in any equipment which was not financed by Bank acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such equipment or indebtedness incurred solely for the purpose of financing the acquisition of such equipment, or (ii) existing on such equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such equipment;
- (d) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) through (c) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase;
- (e) Liens taken by the [ ● ] in accordance with that certain [ ● ] Agreement, each between Borrower and [ ● ], provided that such lien has no priority over any of Bank’s security interests and shall be subject to Bank’s reasonable prior approval; and
- (f) Licenses of Intellectual Property in connection with joint ventures or collaborations the ordinary course of business;
- (g) Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to Inventory and Equipment and secure liabilities in the aggregate amount not to exceed Fifty Thousand Dollars (\$50,000) in the aggregate, which are not delinquent or remain payable without penalty or which, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP, are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;
- (h) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of custom duties that are promptly paid on or before the date they become due;
- (i) Liens on insurance proceeds securing the payment of financed insurance premiums that are promptly paid on or before the date they become due (provided that such Liens extend only to such insurance proceeds and not to any other property or assets);

- (j) leases or subleases of real property granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), and leases, subleases, non-exclusive licenses or sublicenses of personal property (other than Intellectual Property) granted in the ordinary course of Borrower's business (or, if referring to another Person, in the ordinary course of such Person's business), if the leases, subleases, licenses and sublicenses do not prohibit granting Bank a security interest therein;
- (k) Liens arising under the ABN Amro Facility as of the Closing Date;
- (l) Liens on amounts pledged or deposited in the ordinary course of business in connection with obtaining worker's compensation or other unemployment insurance or other social security laws or regulations;
- (m) customary rights of set-off, revocation, refund or chargeback under deposit agreements or securities accounts or under the Code or common law of banks or other financial institutions where any Borrower or any of its Subsidiaries maintains deposits (other than deposits intended as cash collateral) in the ordinary course of business; subject to compliance with requirements set forth in this Agreement and the other Loan Documents with respect to such deposit accounts or securities accounts; and
- (n) Liens on cash collateral securing the Closing Date Letters of Credit until the date such letters of credit are set to expire or be renewed.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Prime Rate" means the greater of five and one half of one percent (5.50%) or the Prime Rate published in the Money Rates section of the Western Edition of The Wall Street Journal, or such other rate of interest publicly announced from time to time by Bank as its Prime Rate. Bank may price loans to its customers at, above or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in Prime Rate.

"[ ● ] Disposition" means the sale of all, or substantially all, of the assets that comprise RealNetworks' [ ● ] business, which is operated within the [ ● ] segment of RealNetworks.

"Responsible Officer" means each of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Controller of each Borrower.

"Revolving Facility" means the facility under which Borrowers may request Bank to issue Advances, as specified in Section 2.1(a) hereof.

"Revolving Line" means a credit extension of up to Ten Million Dollars (\$10,000,000).

"Revolving Maturity Date" means August 1, 2021.

"Schedule" means the schedule of exceptions attached hereto and approved by Bank, if any.

"Subordinated Debt" means any debt incurred by a Borrower that is subordinated to the debt owing by Borrowers to Bank on terms reasonably acceptable to Bank (and identified as being such by Borrowers and Bank).

"Subsidiary" means any corporation, company or partnership in which (i) any general partnership interest or (ii) more than fifty percent (50%) of the stock or other units of ownership which by the terms thereof has the ordinary voting power to elect the Board of Directors, managers or trustees of the entity, at the time as of which any determination is being made, is owned by a Borrower, either directly or through an Affiliate.

"Trademarks" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of each Borrower connected with and symbolized by such trademarks.

**2 Accounting Terms.** All accounting terms not specifically defined herein shall be construed in accordance with GAAP and all calculations made hereunder shall be made in accordance with GAAP. When used herein, the terms “financial statements” shall include the notes and schedules thereto.

**2. Loan and Terms Of Payment.**

**1. Credit Extensions.**

Each Borrower promises to pay to the order of Bank, in accordance with the terms hereof, in lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Bank to Borrowers hereunder. Borrowers shall also pay interest on the unpaid principal amount of such Credit Extensions at rates in accordance with the terms hereof.

**(a) Revolving Advances.**

**(i)** Subject to and upon the terms and conditions of this Agreement, Borrowers may request Advances in an aggregate outstanding amount not to exceed the lesser of (i) the Revolving Line or (ii) the Borrowing Base, *minus*, in each case, the Cash Management Obligations, the Letter of Credit Obligations and the FX Amount. Subject to the terms and conditions of this Agreement, amounts borrowed pursuant to this Section 2.1(a) may be repaid and reborrowed at any time prior to the Revolving Maturity Date, at which time all Advances under this Section 2.1(a) shall be immediately due and payable. Borrowers may prepay any Advances without penalty or premium.

**(ii)** Whenever Borrowers desire an Advance, RealNetworks will notify Bank no later than 3:00 p.m. Pacific time, on the Business Day that the Advance is to be made. Each such notification shall be made (i) by telephone or in-person followed by written confirmation from Borrower within twenty-four (24) hours, (ii) by electronic mail or facsimile transmission, or (iii) by delivering to Bank a Revolving Advance Request Form in substantially the form of Exhibit B hereto. Bank is authorized to make Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer, or without instructions if in Bank’s discretion such Advances are necessary to meet Obligations which have become due and remain unpaid. Bank shall be entitled to rely on any notice given by a person who Bank reasonably believes to be a Responsible Officer or a designee thereof, and Borrowers shall indemnify and hold Bank harmless for any damages or loss suffered by Bank as a result of such reliance. Bank will credit the amount of Advances made under this Section 2.1(a) to a Borrower’s deposit account.

**(b) Cash Management Sublimit.** Subject to the terms and conditions of this Agreement and availability under the Revolving Line and the Borrowing Base, Borrowers may request cash management services which may include merchant services, business credit card, automated clearing house transactions, controlled disbursement accounts and check cashing services identified in various cash management services agreements related to such services (the “Cash Management Services”) by delivering to Bank such applications on Bank’s standard forms as requested by Bank; provided, however, that the total amount of Cash Management Obligations shall not exceed the Cash Management Sublimit, and that availability under the Revolving Line and the Borrowing Base shall be reduced by the Cash Management Obligations. In addition, Bank may, in its sole discretion, charge as Advances any amounts that become due or owing to Bank in connection with the Cash Management Services. If at any time the Revolving Facility is terminated or otherwise ceases to exist, Borrowers shall immediately secure to Bank’s satisfaction the Cash Management Obligations, and, effective as of such date, unless the Cash Management Obligations have been otherwise secured or cash-collateralized to Bank’s satisfaction, the balance in any deposit accounts held by Bank and the certificates of deposit issued by Bank in any Borrower’s name (and any interest paid thereon or proceeds thereof, including any amounts payable upon the maturity or liquidation of such certificates), shall automatically secure the Cash Management Obligations. Borrowers authorize Bank, unless the Cash Management Obligations have been otherwise secured or cash-collateralized to Bank’s satisfaction, to decline to honor any drafts on the Borrowers’ deposit accounts held by Bank or any requests by any Borrower or any other Person to pay or otherwise transfer any part of such balances to the extent such payment or transfer would reduce the aggregate balance of such accounts below the Cash Management Obligations, for so long as the Cash Management Services continue.



(c) **International Sublimit.**

(i) **Letters of Credit** . Subject to the terms and conditions of this Agreement, at any time prior to the Revolving Maturity Date, Bank agrees to issue letters of credit for the account of Borrower (each, a “Letter of Credit” and collectively, the “Letters of Credit”), provided, however, the Letter of Credit Obligations shall not exceed the International Sublimit less any FX Amount (as defined below) outstanding, and for purposes of determining availability under the Revolving Line or Borrowing Base, the Letter of Credit Obligations shall decrease, on a dollar-for-dollar basis, the amount available for other Advances. All Letters of Credit shall be, in form and substance, acceptable to Bank in its sole discretion and shall be subject to the terms and conditions of Bank’s form of standard application and letter of credit agreement (the “Application”), which Borrower hereby agrees to execute, including Bank’s standard fee. On any drawn but unreimbursed Letter of Credit, the unreimbursed amount shall be deemed an Advance under Section 2.1(a). The obligation of Borrower to reimburse Bank for drawings made under Letters of Credit shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, the Application, and such Letters of Credit, under all circumstances whatsoever. Borrower shall indemnify, defend, protect, and hold Bank harmless from any loss, cost, expense or liability, including, without limitation, reasonable attorneys’ fees, arising out of or in connection with any Letters of Credit, except for expenses caused by Bank’s gross negligence or willful misconduct.

(ii) **Foreign Exchange** . Subject to and upon the terms and conditions of this Agreement and any other agreement that Borrower may enter into with Bank in connection with foreign exchange transactions (“FX Contracts”), Borrower may request Bank to enter into FX Contracts with Borrowers due not later than the Revolving Maturity Date. Borrower shall pay any standard issuance and other fees that Bank notifies Borrower will be charged for issuing and processing FX Contracts for Borrowers. The FX Amount shall at all times be equal to or less than the International Sublimit less the Letter of Credit Obligations, and availability under the Revolving Line or Borrowing Base shall be reduced by the FX Amount. The “FX Amount” shall equal the amount determined by multiplying (A) the aggregate amount, in United States Dollars, of FX Contracts between Borrower and Bank remaining outstanding as of any date of determination by (B) the applicable Foreign Exchange Reserve Percentage as of such date. The “Foreign Exchange Reserve Percentage” shall be a percentage as determined by Bank, in its reasonable discretion from time to time. The initial Foreign Exchange Reserve Percentage shall be ten percent (10%).

If at any time the Revolving Facility is terminated or otherwise ceases to exist, Borrower shall immediately secure in cash all of the Letter of Credit Obligations and the FX Amount on terms reasonably acceptable to Bank.

**2 Overadvances.** If the aggregate amount of the outstanding Advances plus the Cash Management Obligations plus the Letter of Credit Obligations plus the FX Amount exceeds the lesser of the Revolving Line or the Borrowing Base at any time, Borrower shall immediately pay to Bank, in cash, the amount of such excess.

**3 Interest Rates, Payments, and Calculations.**

**(a) Interest Rate for Advances** . Except as set forth in Section 2.3(b), the Advances shall bear interest, on the outstanding Daily Balance thereof, at a rate equal to one-half of one percent point (0.50%) above the Prime Rate.

**(b) Late Fee; Default Rate** . If any payment is not made within ten (10) days after the date such payment is due, Borrower shall pay Bank a late fee equal to the lesser of (i) five percent (5.0%) of the amount of such unpaid amount or (ii) the maximum amount permitted to be charged under applicable law, not in any case to be less than Twenty Five Dollars (\$25). All Obligations shall bear interest, from and after the occurrence and during the continuance of an Event of Default, at a rate equal to five (5) percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default.

**(c) Payments.** Interest hereunder shall be due and payable on the first calendar day of each month during the term hereof. Bank shall, at its option, charge such interest, all Bank Expenses, and all Periodic Payments against any of Borrower’s deposit accounts (via auto debit) or against the Revolving Line, in which case those amounts shall thereafter accrue interest at the rate then applicable hereunder. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder. All payments shall be free and clear of any taxes, withholdings, duties, impositions or other charges, to the end that Bank will receive the entire amount of any Obligations payable hereunder, regardless of source of payment.

(d) **Computation.** In the event the Prime Rate is changed from time to time hereafter, the applicable rate of interest hereunder shall be increased or decreased, effective as of the day the Prime Rate is changed, by an amount equal to such change in the Prime Rate. All interest chargeable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

(e) **Crediting Payments.** Prior to the occurrence of an Event of Default, Bank shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrowers specify. After the occurrence and during the continuance of an Event of Default, the receipt by Bank of any wire transfer of funds, check, or other item of payment shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment on account unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or payment received by Bank after 12:00 noon Pacific time shall be deemed to have been received by Bank as of the opening of business on the immediately following Business Day. Whenever any payment to Bank under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

**4 Collections .** All Collections received via credit card payments, a recurring ACH transfers, wire transfers, checks or any other payment method shall be deposited into the Collection Account; provided that notwithstanding the foregoing, each of RealNetworks and RN DMC shall not be required to cause its Collections to be deposited into the Collection Account until the date that is ninety (90) days after the Closing Date, so long as (a) RealNetworks and RN DMC each exercises commercially reasonable efforts during such ninety (90) day period to cause its Collections to be deposited into the Collection Account, and (b) RealNetworks and RN DMC are otherwise in compliance with Section 6.12(iii) with respect to any domestic accounts outside of Bank that are used by RealNetworks or RN DMC, as applicable, to receive its Collections. Bank shall (i) so long as no Event of Default has occurred and is continuing, transfer all Collections deposited into the Collection Account to a Borrower's deposit accounts maintained with Bank on the same day as the Collections are received, or (ii) if an Event of Default has occurred and is continuing, apply the Collections deposited into the Collection Account to the outstanding Obligations within three (3) Business Days of the date received. Bank has no duty to do any act other than to apply such amounts as required above. If an item of Collections is not honored or Bank does not receive good funds for any reason, any amount previously transferred to a Borrower's deposit accounts at Bank or applied to the outstanding Obligations shall be reversed as of the date transferred or applied, as applicable, and, if applied to the outstanding Obligations, interest will accrue as if the Collections had not been so applied. Bank shall have, with respect to any goods related to the Accounts, all the rights and remedies of an unpaid seller under the UCC and other applicable law, including the rights of replevin, claim and delivery, reclamation and stoppage in transit.

**5 Fees.** Borrowers shall pay to Bank the following:

(a) **Facility Fee .** On the Closing Date and on each annual anniversary thereafter, a Facility Fee equal to Twenty Five Thousand Dollars (\$25,000), which shall be fully earned on the Closing Date and payable on the Closing Date and each anniversary thereafter;

(b) **Fee in Lieu of Additional Warrant .** A fee in lieu of additional warrant equal to One Hundred Fifty Thousand Dollars (\$150,000) which shall be fully earned and payable on the Closing Date;

(c) **Termination Fee .** Upon termination of this Agreement or the termination of the Revolving Line for any reason prior to the first anniversary of the Closing Date, in addition to the payment of any other amounts then-owing, a termination fee in an amount equal to One Hundred Thousand Dollars (\$100,000) (the "Termination Fee"); and

(d) **Bank Expenses.** On the Closing Date, all Bank Expenses incurred through the Closing Date, including reasonable and documented attorneys' fees and expenses and, after the Closing Date, all Bank Expenses, including reasonable and documented attorneys' fees and expenses, as and when they are incurred by Bank.

**6 Term.** This Agreement shall become effective on the Closing Date and, subject to Section 13.7, shall continue in full force and effect for so long as any Obligations (other than inchoate indemnity obligations and any obligations that, by their terms, survive the termination of this Agreement) remain outstanding or Bank has any obligation to make Credit Extensions under this Agreement. Notwithstanding the foregoing, Bank shall have the right to terminate its obligation to make Credit Extensions under this Agreement immediately and without notice upon the occurrence and during the continuance of an Event of Default. Notwithstanding termination, Bank's Lien on the Collateral shall

remain in effect for so long as any Obligations (other than inchoate indemnity obligations and any obligations that, by their terms, survive the termination of this Agreement) are outstanding.

3. **Conditions of Loans.**

1. **Conditions Precedent to Initial Credit Extension.** The obligation of Bank to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, the following:

- (a) this Agreement;
- (b) a certificate of the Secretary of each Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Agreement;
- (c) UCC National Form Financing Statement;
- (d) an Intellectual Property Security Agreement from each Borrower;
- (e) the Insurance Authorization Letter ;
- (f) the duly executed original signatures to the Guaranty, together with the duly executed original signatures to the completed corporate resolutions for Guarantor;
- (g) payment of the fees and Bank Expenses then due specified in Section 2.6 hereof;
- (h) current financial statements of each Borrower;
- (i) an audit of the Collateral of each Borrower, the results of which shall be satisfactory to Bank; and
- (j) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

2. **Conditions Precedent to all Credit Extensions.** The obligation of Bank to make each Credit Extension, including the initial Credit Extension, is further subject to the following conditions:

- (a) receipt by Bank of a request for such Credit Extension made in accordance with Section 2.1(a)(ii); and
- (b) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of such Revolving Advance Request Form and on the effective date of each Credit Extension as though made at and as of each such date (except to the extent a representation or warranty is specified as being effective as of a different date, in which case it shall be true and correct in all material respects as of such date), and no Event of Default shall have occurred and be continuing, or would exist immediately after giving effect to such Credit Extension. The making of each Credit Extension shall be deemed to be a representation and warranty by each Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in this Section 3.2 .

4. **Creation of Security Interest.**

1. **Grant of Security Interest.** Each Borrower grants and pledges to Bank a continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by Borrowers of each of their covenants and duties under the Loan Documents. Except as set forth in the Schedule, such security interest constitutes a valid, first priority security interest (except for Permitted Liens) in the presently existing Collateral, and will constitute a valid, first priority security interest (except for Permitted Liens) in Collateral acquired after the date hereof.

2. **Delivery of Additional Documentation Required.** Each Borrower shall from time to time execute and deliver to Bank, at the request of Bank, all Negotiable Collateral, all financing statements and other documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue the perfection of Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents. Each Borrower from time to time may deposit with Bank specific time deposit accounts to secure specific Obligations. Each Borrower authorizes Bank to hold such balances in pledge and to decline to honor any drafts thereon or any request by any Borrower or any other Person to pay or otherwise transfer any part of such balances for so long as the Obligations (other than inchoate indemnity obligations and any obligations that, by their terms, survive the termination of this Agreement) are outstanding.

3. **Right to Inspect.** Bank (through any of its officers, employees, or agents) shall have the right, upon reasonable prior notice, from time to time during each Borrower's usual business hours but no more than once a year (unless an Event of Default has occurred and is continuing), to inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify each Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

5. **Representations and Warranties.**

Each Borrower represents and warrants as follows:

1. **Due Organization and Qualification.** Borrower and each Subsidiary is duly organized and existing under the laws of its state of incorporation, formation or organization and is qualified and licensed to do business in any state in which the conduct of its business or its ownership of property requires that it be so qualified, except, with respect to states other than Borrower's state of incorporation, formation or organization, where the failure to be so qualified could not reasonably be expected to have a Material Adverse Effect.
2. **Due Authorization; No Conflict.** The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Certificate of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which Borrower is bound. Borrower is not in default under any material agreement to which it is a party or by which it is bound, except for any such default which could not reasonably be expected to have a Material Adverse Effect.
3. **No Prior Encumbrances.** Borrower has good and marketable title to its property, free and clear of Liens, except for Permitted Liens.
4. **Bona Fide Eligible Accounts.** The Eligible Accounts are bona fide existing obligations. The property and services giving rise to such Eligible Accounts have been delivered or rendered to the account debtor or to the account debtor's agent for immediate and unconditional acceptance by the account debtor. Borrower has not received notice of actual or imminent Insolvency Proceeding of any account debtor that is included in any Borrowing Base Certificate as an Eligible Account.
5. **Merchantable Inventory.** All Inventory is in all material respects of good and marketable quality, free from all material defects, except for Inventory for which adequate reserves have been made.
6. **Intellectual Property Collateral.** Borrower is the sole owner of the Intellectual Property Collateral, except for non-exclusive licenses granted by Borrower to its customers in the ordinary course of business. To Borrowers' knowledge, each of the Patents is valid and enforceable, and no part of the Intellectual Property Collateral has been judged invalid or unenforceable, in whole or in part, and no claim has been made that any part of the Intellectual Property Collateral violates the rights of any third party. Except as set forth in the Schedule, Borrower is not a party to, or bound by, any agreement that restricts the grant by Borrower of a security interest in Borrower's rights under such agreement, except for Permitted Liens and customary anti-assignment provisions.
7. **Name; Location of Chief Executive Office.** Except as disclosed in the Schedule, as of the Closing Date, Borrower has not done business under any name other than that specified on the signature page hereof. The chief executive office of Borrower is located at the address indicated in Section 10 hereof or at such other location as timely disclosed by Borrower in accordance with Section 7.2.
8. **Litigation.** Except as set forth in the Schedule or as disclosed by Borrower in accordance with Section 6.3(d), there are no actions or proceedings pending by or against Borrower or any Subsidiary before any court or administrative agency in which an adverse decision could reasonably be expected to have a Material Adverse Effect, or a material adverse effect on Borrower's interest or Bank's security interest in the Collateral.
9. **No Material Adverse Change in Financial Statements.** All consolidated and consolidating financial statements related to Borrower and any Subsidiary that Bank has received from Borrower fairly present in all material respects Borrower's financial condition as of the date thereof and Borrower's consolidated and consolidating results of operations for the period then ended. There has not been a material adverse change in the consolidated or the consolidating financial condition of Borrower since the date of the most recent of such financial statements submitted to Bank.
10. **Solvency, Payment of Debts.** Jointly, the Borrowers are solvent and able to pay their debts (including trade debts) as they mature.
11. **Regulatory Compliance.** Borrower and each Subsidiary have met the applicable minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA, and no event has occurred resulting from Borrower's failure to comply with ERISA that could result in Borrower's incurring any material liability. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of the important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T and U of the Board of Governors of the Federal Reserve System). Borrower has been in material

compliance with all applicable provisions of the Federal Fair Labor Standards Act. Borrower has not violated any statutes, laws, ordinances or rules applicable to it, violation of which could reasonably be expected to have a Material Adverse Effect.

12. **Environmental Condition.** Except as disclosed in the Schedule, none of Borrower's or any Subsidiary's properties or assets has ever been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge and as would reasonably be expected to result in liability to Borrower or any Subsidiary, by previous owners or operators, in the disposal of, or to produce, store, handle, treat, release, or transport, any hazardous waste or hazardous substance other than in accordance with applicable law in all material respects; to the best of Borrower's knowledge, none of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a hazardous waste or hazardous substance disposal site, or a candidate for regulatory closure pursuant to any environmental protection statute; no lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned by Borrower or any Subsidiary; and neither Borrower nor any Subsidiary has received a summons, citation, written notice, or written directive from the Environmental Protection Agency or any other federal, state or other governmental agency concerning any action or omission by Borrower or any Subsidiary resulting in the releasing, or otherwise disposing, of hazardous waste or hazardous substances into the environment.

13. **Taxes.** Borrower and each Subsidiary have filed or caused to be filed all tax returns required to be filed, and have paid, or have made adequate provision for the payment of, all taxes reflected therein, unless such taxes are being contested in good faith by appropriate proceedings and for which Borrower maintains adequate reserves, provided the same have no priority over any of Bank's security interests.

14. **Subsidiaries.** Borrower does not own any stock, partnership interest or other equity securities of any Person, except for Permitted Investments.

15. **Government Consents.** Borrower and each Subsidiary have obtained all material consents, approvals and authorizations of, made all material declarations or filings with, and given all notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted.

16. **Accounts.** None of Borrower's nor any Subsidiary's depository, operating or investments accounts is maintained or invested with a Person other than Bank, except as permitted by Section 6.7 hereof.

17. **Full Disclosure.** No representation, warranty or other statement made by Borrower in any certificate or written statement furnished to Bank contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained in such certificates or statements not misleading in light of the circumstances under which they were made, it being recognized by Bank that the projections and forecasts have been provided by Borrowers in good faith and based upon reasonable assumptions and are not to be viewed as representations, warranties, statements or facts, and that actual results during the period or periods covered by any such projections and forecasts may differ from the projected or forecasted results.

6. **Affirmative Covenants.**

Each Borrower (except as indicated) shall do all of the following:

1. **Good Standing.** Borrower shall maintain its and each of its Subsidiaries' corporate existence and good standing in its jurisdiction of incorporation, formation or organization, and maintain qualification in each jurisdiction in which it is required under applicable law, except where the failure to qualify could not reasonably be expected to have a Material Adverse Effect. Borrower shall maintain, and shall cause each of its Subsidiaries to maintain, in force all licenses, approvals and agreements, the loss of which could reasonably be expected to have a Material Adverse Effect.

2. **Government Compliance.** Borrower shall meet, and shall cause each Subsidiary to meet, the applicable minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and government rules and regulations to which it is subject, noncompliance with which could reasonably be expected to have a Material Adverse Effect.

3. **Financial Statements, Reports, Certificates.** Borrowers shall deliver the following to Bank:

(a) as soon as available, but in any event within thirty (30) days after the end of (i) each calendar month, a company prepared consolidated and consolidating balance sheet, income statement, and cash flow statement covering each Borrower and their Subsidiaries' consolidated and consolidating operations during such period, prepared in accordance with GAAP, consistently applied, in a form acceptable to Bank and certified by a

Responsible Officer along with all banking/depository statements from each financial institution where any of Borrowers' foreign subsidiaries maintains accounts;

- (b) as soon as available, but in any event within one hundred eighty (180) days after the end of each Borrower's fiscal year, audited consolidated and consolidating financial statements of each Borrower prepared in accordance with GAAP, consistently applied, together with an unqualified opinion on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank;
- (c) copies of all statements, reports and notices sent or made available generally by any Borrower to its security holders or to any holders of Subordinated Debt and, if applicable, all reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission;
- (d) promptly upon receipt of notice thereof, a report of any legal actions pending or threatened against any Borrower or any Subsidiary that could reasonably be expected to result in damages or costs to any Borrower or any Subsidiary of Two Hundred Fifty Thousand Dollars (\$250,000) or more;
- (e) as soon as available, but in any event within thirty (30) days after the end of each fiscal year of each Borrower, an annual board approved forecast in form acceptable to Bank including, at a minimum, a quarterly income statement, balance sheet and cash flow forecast,
- (f) such other budgets, sales projections, operating plans or other financial information as Bank may reasonably request from time to time; and
- (g) within five (5) days of filing, each Borrower's annual federal and state tax returns.

Within thirty (30) days after the last day of each month, Borrowers shall deliver to Bank a Roll-forward Borrowing Base Certificate signed by a Responsible Officer in substantially the form of Exhibit C hereto, together with aged listings of accounts receivable and accounts payable by invoice date, unbilled accounts receivable report, sales journal, cash receipts journal, credit memo journal, and a report of Direct To Consumer Subscription Deposits.

Borrowers shall deliver to Bank with the monthly financial statements a Compliance Certificate signed by a Responsible Officer in substantially the form of Exhibit D hereto.

Bank shall have a right from time to time hereafter to audit each Borrower's Accounts and appraise Collateral at Borrowers' expense, provided that such audits will be conducted no more often than every twelve (12) months unless an Event of Default has occurred and is continuing.

4. **Inventory; Returns.** Borrower shall keep all Inventory in good and marketable condition, free from all material defects except for Inventory for which adequate reserves have been made. Returns and allowances, if any, as between Borrower and its account debtors shall be on the same basis and in accordance with the usual customary practices of Borrower, as they exist at the time of the execution and delivery of this Agreement. Borrower shall promptly notify Bank of all returns and recoveries and of all disputes and claims, where the return, recovery, dispute or claim involves more than Two Hundred Fifty Thousand Dollars (\$250,000).

5. **Taxes.** Borrower shall make, and shall cause each Subsidiary to make, due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Bank, on demand, appropriate certificates attesting to the payment or deposit thereof; and Borrower will make, and will cause each Subsidiary to make, timely payment or deposit of all material tax payments and withholding taxes required of it by applicable laws, including, but not limited to, those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Bank with proof satisfactory to Bank indicating that Borrower or a Subsidiary has made such payments or deposits; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment is contested in good faith by appropriate proceedings and is reserved against (to the extent required by GAAP) by Borrower.

6. **Insurance.**

(a) Borrower, at its expense, shall keep all tangible Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted on the date hereof. Borrower shall also maintain insurance relating to Borrower's business, ownership and use of the Collateral in amounts and of a type that are customary to businesses similar to Borrower's.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as are reasonably satisfactory to Bank. All such policies of property insurance shall contain a lender's

loss payable endorsement, in a form satisfactory to Bank, showing Bank as an additional loss payee thereof, and all liability insurance policies shall show the Bank as an additional insured and shall specify that the insurer must give at least twenty (20) days notice to Bank before canceling its policy for any reason. Upon Bank's request, Borrower shall deliver to Bank certified copies of such policies of insurance and evidence of the payments of all premiums therefor. All proceeds payable under any such policy shall, at the option of Bank, be payable to Bank to be applied on account of the Obligations.

7. **Accounts.** Borrowers and their domestic Subsidiaries shall maintain all domestic depository, operating, and investment accounts with Bank and shall endeavor to utilize and shall cause each of its Subsidiaries to endeavor to utilize Bank's International Banking Division for any international banking services required, including, but not limited to, foreign currency wires, hedges, swaps, FX Contracts, and Letters of Credit. Notwithstanding the foregoing, (i) each of RealNetworks and RN DMC may maintain up to least fifty percent (50%) of its unrestricted cash in accounts outside of Bank, so long as, no later than thirty (30) days after the Closing Date (or the date of the opening of such account, whichever is later), RealNetworks and RN DMC, as applicable, has delivered an account control agreement in favor of Bank for all such domestic accounts it holds, and (ii) Borrowers may maintain the Closing Date Letters of Credit, so long as on the earliest date upon which any such Letter of Credit expires or is up for renewal, such Letters of Credit shall be terminated and any replacement Letters of Credit will be issued by Bank.

8. **Asset Coverage Ratio .** Borrowers shall maintain at all times, measured as of the last day of each month on a consolidated basis, a ratio of (a) the sum of (i) unrestricted cash held at Bank, which shall at no time be less than Three Million Five Hundred Thousand Dollars (\$3,500,000), plus (ii) the Coverage Ratio Asset Base, to (b) all Obligations owing from Borrowers to Bank, of not less than 1.50:1.00.

9. **Minimum EBITDA .** Borrowers shall at all times maintain EBITDA, measured as of the last day of each quarter on a consolidated basis, in minimum amounts as set forth below for the corresponding measuring periods.

Quarter Ending	Minimum EBITDA
September 30, 2019	[ ● ]
December 31, 2019	[ ● ]

The required Minimum EBITDA levels for the measuring periods ending after December 31 of each year shall be reset by Bank in its good faith business judgment. The new covenant levels shall be documented in an amendment to this agreement to be entered into no later than sixty (60) days after the end of each fiscal year of RealNetworks. Borrowers' failure to enter into the amendment to this agreement to reset such covenant levels shall be an immediate and non-curable Event of Default hereunder.

10. **Intellectual Property Rights.**

(a) On or prior to the last calendar day of each quarter, provide Bank written notice of any applications or registrations of intellectual property rights filed with the United States Patent and Trademark Office during the time since the last quarterly notice required by this Section 6.9 was provided by Borrower to Bank (or since the Closing Date, in the case of the first of such notices). Such notice shall include the date of such filing and the registration or application numbers, if any. Borrower shall (i) give Bank not less than 10 days prior written notice of the filing of any applications or registrations with the United States Copyright Office, including the title of such intellectual property rights to be registered, as such title will appear on such applications or registrations, and the date such applications or registrations will be filed, and (ii) prior to the filing of any such applications or registrations, shall execute such documents as Bank may reasonably request for Bank to obtain or maintain its perfection in such intellectual property rights to be registered by Borrower, and upon the request of Bank, shall file such documents simultaneously with the filing of any such applications or registrations. Upon filing any such applications or registrations with the United States Copyright Office, Borrower shall promptly provide Bank with (i) a copy of such applications or registrations, without the exhibits, if any, thereto, (ii) evidence of the filing of any documents requested by Bank to be filed for Bank to obtain or maintain the perfection and priority of its security interest in such intellectual property rights, and (iii) the date of such filing.

(b) Bank may audit Borrower's Intellectual Property Collateral to confirm compliance with this Section, provided such audit may not occur more often than once per year, unless an Event of Default has occurred and is continuing. Bank shall have the right, but not the obligation, to take, at Borrower's sole expense, any actions that Borrower is required under this Section to take but which Borrower fails to take, after 15 days' notice to

Borrower. Borrower shall reimburse and indemnify Bank for all reasonable, out-of-pocket and documented costs and expenses incurred in the reasonable exercise of its rights under this Section.

11. **Further Assurances.** At any time and from time to time Borrower shall execute and deliver such further instruments and take such further action as may reasonably be requested by Bank to effect the purposes of this Agreement.

12. **Post-Close Conditions** . As soon as possible, but in any event within (i) ninety (90) days of the Closing Date, Borrowers shall deliver to Bank evidence, satisfactory to Bank in its sole discretion, that Napster Lux has taken the steps necessary for Bank to perfect a security interest in its assets, (ii) thirty (30) days of the Closing Date, Borrowers shall deliver to Bank a subordination agreement, duly executed by [ ● ], in form and substance reasonably satisfactory to Bank, (iii) thirty (30) days of the Closing Date (or the date of the opening of such account, whichever is later), Borrowers shall deliver to Bank an account control agreement in favor of Bank for all of Borrowers' domestic accounts held outside of Bank, and (iv) thirty (30) days of the Closing Date, Rhapsody shall deliver a landlord waiver duly executed by the landlord for Rhapsody's facility located at 701 5<sup>th</sup> Avenue, Suite 3100, Seattle, WA 98104.

7. **Negative Covenants.**

No Borrower will do any of the following:

1. **Dispositions.** Convey, sell, lease, transfer or otherwise dispose of (each a "Transfer" and collectively, "Transfers"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than: (i) Transfers of Inventory in the ordinary course of business; (ii) Transfers of non-exclusive licenses, leases and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; (iii) Transfers of worn-out or obsolete Equipment which was not financed by Bank; (iv) the granting of Permitted Liens or the making of Permitted Investments; (v) Transfers among or between Borrowers and any domestic Subsidiaries that are guarantors of the Obligations; (vi) the lapse of registered patents, trademarks, copyrights and other intellectual property to the extent not economically desirable in the conduct of business, provided such lapse is not materially adverse to the interests of Bank; (vii) distributions permitted under Section 7.6; (viii) the disposition or dissolution of Subsidiaries that are not Guarantors, provided that all of such Subsidiaries' remaining assets are transferred to a Borrower or any of its other Subsidiaries; (ix) the [ ● ] Disposition, provided (x) that no Event of Default shall have occurred and be continuing both immediately before and immediately after giving effect to the [ ● ] Disposition and (y) the gross proceeds of the [ ● ] Disposition are not less than [ ● ] and the net proceeds allocated to Borrowers will be deposited into accounts at Bank; and (x) Transfers of other assets having a fair market value of not more than Two Hundred Fifty Thousand Dollars (\$250,000) in the aggregate in any fiscal year.

2. **Change in Business; Change in Control or Executive Office.** Engage in any business, or permit any of its Subsidiaries to engage in any business, other than the businesses currently engaged in by Borrower and any business substantially similar or related thereto (or incidental thereto); or cease to conduct business in the manner (or a substantially similar manner) conducted by Borrower as of the Closing Date; or suffer or permit a Change in Control; or without thirty (30) days prior written notification to Bank, relocate its chief executive office or state of incorporation or change its legal name; or without Bank's prior written consent, change the date on which its fiscal year ends.

3. **Mergers or Acquisitions.** Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, provided that a Borrower may merge or consolidate with another Borrower, and a Subsidiary may merge with a Borrower (provided that such Borrower is the surviving legal entity) or another Subsidiary (provided that, if any Subsidiary involved in a merger is a Guarantor, the surviving legal entity of the merger shall also become a Guarantor).

4. **Indebtedness.** Create, incur, assume or be or remain liable with respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness.

5. **Encumbrances.** Create, incur, assume or suffer to exist any Lien with respect to any of its property (including without limitation, its Intellectual Property Collateral), or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, or agree with any Person other than Bank not to grant a security interest in, or otherwise encumber, any of its property (including without limitation, its Intellectual Property Collateral), or permit any Subsidiary to do so, except



with respect to any fixed assets that are subject to a Lien permitted under clause (c) of the definition of “Permitted Liens”.

6. **Distributions.** Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock, or permit any of its Subsidiaries to do so, except that (a) Borrower may repurchase the stock of former employees pursuant to stock repurchase agreements as long as an Event of Default does not exist prior to such repurchase or would not exist after giving effect to such repurchase, (b) any Subsidiary may make such distributions or payments to another Subsidiary that is a direct or indirect parent entity of such Subsidiary, including Borrowers, (c) Borrower may convert convertible equity securities (including warrants) of Borrower into other equity securities of Borrower pursuant to the terms of such convertible equity securities, and (d) Borrower may convert Subordinated Debt into equity securities of Borrower to the extent permitted under the terms of the applicable subordination or intercreditor agreement with Bank.

7. **Investments.** Directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments; or maintain or invest any of its property with a Person other than Bank or permit any of its Subsidiaries to do so unless such Person has entered into an account control agreement with Bank in form and substance satisfactory to Bank; or suffer or permit any Subsidiary to be a party to, or be bound by, an agreement that restricts such Subsidiary from paying dividends or otherwise distributing property to Borrower.

8. **Transactions with Affiliates.** Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for (a) Permitted Investments and (b) transactions that are in the ordinary course of Borrower’s business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm’s length transaction with a non-affiliated Person.

9. **Subordinated Debt.** Make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment, except in compliance with the terms of such Subordinated Debt, or amend any provision contained in any documentation relating to the Subordinated Debt without Bank’s prior written consent.

10. **Inventory and Equipment.** Store Inventory or Equipment with an aggregate value in excess of Two Hundred Fifty Thousand Dollars (\$250,000) with a bailee, warehouseman, or other third party unless the third party has been notified of Bank’s security interest and Bank (a) has received an acknowledgment from the third party that it is holding or will hold the Inventory or Equipment for Bank’s benefit or (b) is in pledge possession of the warehouse receipt, where negotiable, covering such Inventory or Equipment; provided, that notwithstanding the foregoing no such notification, acknowledgement or pledge shall be required with respect to servers and related Equipment stored at a data center.

11. **Compliance.** Become an “investment company” or be controlled by an “investment company,” within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Credit Extension for such purpose. Fail to meet the applicable minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur, fail to be in material compliance with the Federal Fair Labor Standards Act or violate any law or regulation, which violation could reasonably be expected to have a Material Adverse Effect, or a material adverse effect on the Collateral or the priority of Bank’s Lien on the Collateral, or permit any of its Subsidiaries to do any of the foregoing.

12. **Capital Expenditures.** Make or contract to make, without Bank’s prior written consent, capital expenditures, including leasehold improvements (provided, for the avoidance of doubt, that rent payments and operating lease payments shall not constitute capital expenditures), in any fiscal year in excess of Four Million Dollars (\$4,000,000).

8. **Events of Default.**

Any one or more of the following events shall constitute an Event of Default by Borrowers under this Agreement:

1. **Payment Default.** If a Borrower fails to pay, when due, any of the Obligations;

2. **Covenant Default.**

(a) If a Borrower fails to perform any obligation under Article 6 or violates any of the covenants contained in Article 7 of this

Agreement; or

(b) If a Borrower fails or neglects to perform or observe any other material term, provision, condition, covenant contained in

this Agreement, in any of the Loan Documents, or in any other present or

future agreement between a Borrower and Bank and as to any default under such other term, provision, condition or covenant that can be cured, has failed to cure such default within ten days after any Borrower receives notice thereof or any officer of a Borrower becomes aware thereof; provided, however, that if the default cannot by its nature be cured within the ten day period or cannot after diligent attempts by Borrowers be cured within such ten day period, and such default is likely to be cured within a reasonable time, then Borrowers shall have an additional reasonable period (which shall not in any case exceed 30 days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default but no Credit Extensions will be made.

3. **Material Adverse Effect.** If there occurs any circumstance or circumstances that could reasonably be expected to have a Material Adverse Effect;

4. **Attachment.** If any portion of a Borrower's assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within twenty (20) days, or if a Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any material portion of a Borrower's assets, or if a notice of lien, levy, or assessment is filed of record with respect to any of a Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within twenty (20) days after a Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrowers (provided that no Credit Extensions will be required to be made during such cure period);

5. **Insolvency.** If Borrowers jointly become insolvent, or if an Insolvency Proceeding is commenced by a Borrower, or if an Insolvency Proceeding is commenced against a Borrower and is not dismissed or stayed within forty-five (45) days (provided that no Credit Extensions will be made prior to the dismissal of such Insolvency Proceeding);

6. **Other Agreements.** If there is a default or other failure to perform in any agreement to which a Borrower is a party or by which it is bound resulting in a right by a third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of Two Hundred Fifty Thousand Dollars (\$250,000) or which could reasonably be expected to have a Material Adverse Effect; provided, however, that the Event of Default under this Section 8.6 arising from the occurrence of a breach or default under such other agreement shall be cured or waived hereunder upon Bank receiving written notice from the party asserting such breach or default a such cure or waiver of the breach or default under such other agreement, if at the time of such cure or waiver under such other agreement (x) Bank has not declared an Event of Default under this Agreement and (y) any such cure or waiver does not result in an Event of Default under any other provision of this Agreement or any Loan Document;

7. **Judgments.** If a judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least Two Hundred Fifty Thousand Dollars (\$250,000) shall be rendered against a Borrower and shall remain unsatisfied and unstayed for a period of twenty (20) days (provided that no Credit Extensions will be made prior to the satisfaction or stay of such judgment); or

8. **Misrepresentations.** If any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth herein or in any certificate delivered to Bank by any Responsible Officer pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Loan Document.

9. **Guaranty .** If any guaranty of all or a portion of the Obligations (a "Guaranty") ceases for any reason to be in full force and effect, or any guarantor fails to perform any obligation under any Guaranty or a security agreement securing any Guaranty (collectively, the "Guaranty Documents"), or any event of default occurs under any Guaranty Document or any guarantor revokes or purports to revoke a Guaranty, or any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth in any Guaranty Document or in any certificate delivered to Bank in connection with any Guaranty Document, or if any of the circumstances described in Sections 8.3 through 8.9 occur with respect to any guarantor or any guarantor dies or becomes subject to any criminal prosecution.

9. **Bank's Rights and Remedies.**

1. **Rights and Remedies.** Upon the occurrence and during the continuance of an Event of Default, Bank may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrowers:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5, all Obligations shall become immediately due and payable without any action by Bank);

(b) Cease advancing money or extending credit to or for the benefit of Borrowers under this Agreement or under any other agreement between any Borrower and Bank;

(c) Settle or adjust disputes and claims directly with account debtors for amounts, upon terms and in whatever order that Bank reasonably considers advisable;

(d) Make such payments and do such acts as Bank considers necessary or reasonable to protect its security interest in the Collateral. Each Borrower agrees to assemble the Collateral if Bank so requires, and to make the Collateral available to Bank as Bank may designate. Each Borrower authorizes Bank to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Bank's determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of a Borrower's owned premises, each Borrower hereby grants Bank a license to enter into possession of such premises and to occupy the same, without charge, in order to exercise any of Bank's rights or remedies provided herein, at law, in equity, or otherwise;

(e) Set off and apply to the Obligations any and all (i) balances and deposits of any Borrower held by Bank, or (ii) indebtedness at any time owing to or for the credit or the account of a Borrower held by Bank;

(f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Bank is hereby granted a license or other right, solely pursuant to the provisions of this Section 9.1, to use, without charge, each Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, each Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit;

(g) Dispose of the Collateral by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including each Borrower's premises) as Bank determines is commercially reasonable, and apply any proceeds to the Obligations in whatever manner or order Bank deems appropriate;

(h) Bank may credit bid and purchase at any public sale; and

(i) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

2. **Power of Attorney.** Effective only upon the occurrence and during the continuance of an Event of Default, each Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as such Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Bank's security interest in the Accounts; (b) endorse such Borrower's name on any checks or other forms of payment or security that may come into Bank's possession; (c) sign such Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) dispose of any Collateral; (e) make, settle, and adjust all claims under and decisions with respect to such Borrower's policies of insurance; (f) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts and upon terms which Bank determines to be reasonable; and (g) to file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral. The appointment of Bank as each Borrower's attorney in fact, and each and every one of Bank's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations (other than inchoate indemnity obligations and any obligations that, by their terms, survive the termination of this Agreement) have been fully repaid and performed and Bank's obligation to provide Credit Extensions hereunder is terminated.

3. **Accounts Collection.** At any time after the occurrence and during the continuance of an Event of Default, Bank may notify any Person owing funds to a Borrower of Bank's security interest in such funds and verify the amount of such Account. Each Borrower shall collect all amounts owing to such Borrower for Bank, receive in trust all payments as Bank's trustee, and immediately deliver such payments to Bank in their original form as received from the account debtor, with proper endorsements for deposit.

4. **Bank Expenses.** If a Borrower fails to pay any amounts or furnish any required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Bank may do any or all of the following after reasonable notice to Borrowers: (a) make payment of the same or any part thereof; (b) set up

such reserves under a loan facility in Section 2.1 as Bank deems necessary to protect Bank from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.6 of this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar payments in the future or a waiver by Bank of any Event of Default under this Agreement.

5. **Bank's Liability for Collateral.** So long as Bank complies with reasonable banking practices, Bank shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever. All risk of loss, damage or destruction of the Collateral shall be borne by Borrowers.

6. **Remedies Cumulative.** Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Bank shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on a Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election, or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given.

7. **Demand; Protest.** Each Borrower waives demand, protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Bank on which any Borrower may in any way be liable.

10. **Notices.**

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Bank or any Borrower may change its mailing or electronic mail address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrowers: c/o REALNETWORKS, INC.  
1501 1<sup>st</sup> Avenue, Suite 600

Seattle, WA 98101  
Attn: Michael Parham

AND

c/o RHAPSODY INTERNATIONAL INC.  
701 5th Avenue, Suite 3100  
Seattle, WA, 98104  
Attn: Legal Department and Randy Haas, Chief Financial Officer  
Fax: (206) 682-1783  
Email: [meccles@rhapsody.com](mailto:meccles@rhapsody.com) (with a copy to [legal@napster.com](mailto:legal@napster.com))

with a copy (which shall not constitute notice) to:

DAVIS WRIGHT TREMAINE LLP  
920 5<sup>th</sup> Ave, Suite 3300  
Seattle, WA 98104  
Attn: Ronald Law

If to Bank: Bridge Bank, a division of Western Alliance Bank  
55 Almaden Boulevard, Suite 100  
San Jose, CA 95113

Attn: Note Department  
Fax # 408-689-8542  
Phone # 408-423-8500  
Email: [mike.lederman@bridgebank.com](mailto:mike.lederman@bridgebank.com)

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

**11. Choice of Law and Venue; Jury Trial Waiver.**

This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of California, without regard to principles of conflicts of law. Each of Borrowers and Bank hereby submits to the exclusive jurisdiction of the state and Federal courts located in the County of Santa Clara, State of California. BORROWERS AND BANK EACH HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH PARTY RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

**12. JUDICIAL REFERENCE PROVISION.**

1. In the event the Jury Trial Waiver set forth above is not enforceable, the parties elect to proceed under this Judicial Reference Provision.

2. With the exception of the items specified in Section 12.3, below, any controversy, dispute or claim (each, a “**Claim**”) between the parties arising out of or relating to this Agreement or any other document, instrument or agreement between the undersigned parties (collectively in this Section, the “**Loan Documents**”), will be resolved by a reference proceeding in California in accordance with the provisions of Sections 638 et seq. of the California Code of Civil Procedure (“**CCP**”), or their successor sections, which shall constitute the exclusive remedy for the resolution of any Claim, including whether the Claim is subject to the reference proceeding. Except as otherwise provided in the Loan Documents, venue for the reference proceeding will be in the state or federal court in the county or district where the real property involved in the action, if any, is located or in the state or federal court in the county or district where venue is otherwise appropriate under applicable law (the “**Court**”).

3. The matters that shall not be subject to a reference are the following: (i) nonjudicial foreclosure of any security interests in real or personal property, (ii) exercise of self-help remedies (including, without limitation, set-off), (iii) appointment of a receiver and (iv) temporary, provisional or ancillary remedies (including, without limitation, writs of attachment, writs of possession, temporary restraining orders or preliminary injunctions). This reference provision does not limit the right of any party to exercise or oppose any of the rights and remedies described in clauses (i) and (ii) or to seek or oppose from a court of competent jurisdiction any of the items described in clauses (iii) and (iv). The exercise of, or opposition to, any of those items does not waive the right of any party to a reference pursuant to this reference provision as provided herein.

4. The referee shall be a retired judge or justice selected by mutual written agreement of the parties. If the parties do not agree within ten (10) days of a written request to do so by any party, then, upon request of any party, the referee shall be selected by the Presiding Judge of the Court (or his or her representative). A request for appointment of a referee may be heard on an ex parte or expedited basis, and the parties agree that irreparable harm would result if ex parte relief is not granted. Pursuant to CCP § 170.6, each party shall have one peremptory challenge to the referee selected by the Presiding Judge of the Court (or his or her representative).

5. The parties agree that time is of the essence in conducting the reference proceedings. Accordingly, the referee shall be requested, subject to change in the time periods specified herein for good cause shown, to (i) set the matter for a status and trial-setting conference within fifteen (15) days after the date of selection of the

referee, (ii) if practicable, try all issues of law or fact within one hundred twenty (120) days after the date of the conference and (iii) report a statement of decision within twenty (20) days after the matter has been submitted for decision.

6. The referee will have power to expand or limit the amount and duration of discovery. The referee may set or extend discovery deadlines or cutoffs for good cause, including a party's failure to provide requested discovery for any reason whatsoever. Unless otherwise ordered based upon good cause shown, no party shall be entitled to "priority" in conducting discovery, depositions may be taken by either party upon seven (7) days written notice, and all other discovery shall be responded to within fifteen (15) days after service. All disputes relating to discovery which cannot be resolved by the parties shall be submitted to the referee whose decision shall be final and binding.

7. Except as expressly set forth herein, the referee shall determine the manner in which the reference proceeding is conducted including the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceeding. All proceedings and hearings conducted before the referee, except for trial, shall be conducted without a court reporter, except that when any party so requests, a court reporter will be used at any hearing conducted before the referee, and the referee will be provided a courtesy copy of the transcript. The party making such a request shall have the obligation to arrange for and pay the court reporter. Subject to the referee's power to award costs to the prevailing party, the parties will equally share the cost of the referee and the court reporter at trial.

8. The referee shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. The rules of evidence applicable to proceedings at law in the State of California will be applicable to the reference proceeding. The referee shall be empowered to enter equitable as well as legal relief, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a court proceeding, including without limitation motions for summary judgment or summary adjudication. The referee shall issue a decision at the close of the reference proceeding which disposes of all claims of the parties that are the subject of the reference. Pursuant to CCP § 644, such decision shall be entered by the Court as a judgment or an order in the same manner as if the action had been tried by the Court and any such decision will be final, binding and conclusive. The parties reserve the right to appeal from the final judgment or order or from any appealable decision or order entered by the referee. The parties reserve the right to findings of fact, conclusions of laws, a written statement of decision, and the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this provision.

9. If the enabling legislation which provides for appointment of a referee is repealed (and no successor statute is enacted), any dispute between the parties that would otherwise be determined by reference procedure will be resolved and determined by arbitration. The arbitration will be conducted by a retired judge or justice, in accordance with the California Arbitration Act §1280 through §1294.2 of the CCP as amended from time to time. The limitations with respect to discovery set forth above shall apply to any such arbitration proceeding.

10. THE PARTIES RECOGNIZE AND AGREE THAT ALL CONTROVERSIES, DISPUTES AND CLAIMS RESOLVED UNDER THIS REFERENCE PROVISION WILL BE DECIDED BY A REFEREE AND NOT BY A JURY. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF ITS, HIS OR HER OWN CHOICE, EACH PARTY KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, AGREES THAT THIS REFERENCE PROVISION WILL APPLY TO ANY CONTROVERSY, DISPUTE OR CLAIM BETWEEN OR AMONG THEM ARISING OUT OF OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.

13. **General Provisions.**

1. **Successors and Assigns.** This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; provided, however, that neither this Agreement nor any rights hereunder may be assigned by any Borrower without Bank's prior written consent, which consent may be granted or withheld in Bank's sole discretion. Bank shall have the right without the consent of or notice to any Borrower to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder.

2. **Indemnification.** Borrowers shall defend, indemnify and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by this Agreement; and (b) all losses or Bank Expenses in any way suffered, incurred, or paid by Bank as a result of or in any way arising out of, following, or consequential to transactions between Bank and any Borrower whether under this Agreement, or otherwise (including without

limitation reasonable, documented attorneys' fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

3. **Time of Essence.** Time is of the essence for the performance of all obligations set forth in this Agreement.

4. **Severability of Provisions.** Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

5. **Amendments in Writing, Integration.** Neither this Agreement nor the Loan Documents can be amended or terminated orally. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement and the Loan Documents, if any, are merged into this Agreement and the Loan Documents.

6. **Counterparts.** This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement.

7. **Survival.** All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations (other than inchoate indemnity obligations and any obligations that, by their terms, survive the termination of this Agreement) remain outstanding or Bank has any obligation to make Credit Extensions to Borrowers. The obligations of Borrowers to indemnify Bank with respect to the expenses, damages, losses, costs and liabilities described in Section 13.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run.

8. **Confidentiality.** In handling any confidential information Bank and all employees and agents of Bank, including but not limited to accountants, shall exercise the same degree of care that it exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement except that disclosure of such information may be made (i) to the subsidiaries or affiliates of Bank in connection with their present or prospective business relations with Borrowers, provided that such subsidiaries or affiliates are bound by confidentiality obligations substantially the same as those of this Section 13.8, (ii) to prospective transferees or purchasers of any interest in the Loans, provided that, unless an Event of Default has occurred and is continuing, such prospective transferees or purchasers are bound by confidentiality obligations substantially the same as those of this Section 13.8, (iii) as required by law, regulations, rule or order, subpoena, judicial order or similar order, (iv) as may be required in connection with the examination, audit or similar investigation of Bank and (v) as Bank may determine in connection with the enforcement of any remedies hereunder. Confidential information hereunder shall not include information that either: (a) is in the public domain or in the knowledge or possession of Bank when disclosed to Bank, or becomes part of the public domain after disclosure to Bank through no fault of Bank; or (b) is disclosed to Bank by a third party, provided Bank does not have actual knowledge that such third party is prohibited from disclosing such information.

9. **Patriot Act Notice.** Bank notifies Borrower that, pursuant to the requirements of the USA Patriot Act, Title III of Pub. L. 107-56 (signed into law on October 26, 2001) (the "Patriot Act"), it is required to obtain, verify and record information that identifies each Borrower, which information includes names and addresses and other information that will allow Bank to identify any Borrower in accordance with the Patriot Act.

#### 14. **CO-BORROWER PROVISIONS.**

1. **Primary Obligation.** This Agreement is a primary and original obligation of each Borrower and shall remain in effect notwithstanding future changes in conditions, including any change of law or any invalidity or irregularity in the creation or acquisition of any Obligations or in the execution or delivery of any agreement between Bank and any Borrower. Each Borrower shall be liable for existing and future Obligations as fully as if all of all Credit Extensions were advanced to such Borrower. Bank may rely on any certificate or representation made by any Borrower as made on behalf of, and binding on, all Borrowers, including without limitation Disbursement Request Forms, Borrowing Base Certificates and Compliance Certificates.

2. **Enforcement of Rights.** Borrowers are jointly and severally liable for the Obligations and Bank may proceed against one or more of the Borrowers to enforce the Obligations without waiving its right to proceed against any of the other Borrowers.

3. **Borrowers as Agents.** Each Borrower appoints the other Borrower as its agent with all necessary power and authority to give and receive notices, certificates or demands for and on behalf of both Borrowers, to act as disbursing agent for receipt of any Credit Extensions on behalf of each Borrower and to apply to Bank on behalf of each Borrower for Credit Extensions, any waivers and any consents. This authorization cannot be revoked, and Bank need not inquire as to each Borrower's authority to act for or on behalf of another Borrower.

4. **Subrogation and Similar Rights.** Notwithstanding any other provision of this Agreement or any other Loan Document, each Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating the Borrower to the rights of Bank under the Loan Documents) to seek contribution, indemnification, or any other form of reimbursement from any other Borrower, or any other Person now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by the Borrower with respect to the Obligations in connection with the Loan Documents or otherwise and all rights that it might have to benefit from, or to participate in, any security for the Obligations as a result of any payment made by the Borrower with respect to the Obligations in connection with the Loan Documents or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section 13.4 shall be null and void. If any payment is made to a Borrower in contravention of this Section 13.4, such Borrower shall hold such payment in trust for Bank and such payment shall be promptly delivered to Bank for application to the Obligations, whether matured or unmatured.

5. **Waivers of Notice.** Except as otherwise provided in this Agreement, each Borrower waives notice of acceptance hereof; notice of the existence, creation or acquisition of any of the Obligations; notice of an Event of Default; notice of the amount of the Obligations outstanding at any time; notice of intent to accelerate; notice of acceleration; notice of any adverse change in the financial condition of any other Borrower or of any other fact that might increase the Borrower's risk; presentment for payment; demand; protest and notice thereof as to any instrument; default; and all other notices and demands to which the Borrower would otherwise be entitled. Each Borrower waives any defense arising from any defense of any other Borrower, or by reason of the cessation from any cause whatsoever of the liability of any other Borrower. Bank's failure at any time to require strict performance by any Borrower of any provision of the Loan Documents shall not waive, alter or diminish any right of Bank thereafter to demand strict compliance and performance therewith. Nothing contained herein shall prevent Bank from foreclosing on the Lien of any deed of trust, mortgage or other security instrument, or exercising any rights available thereunder, and the exercise of any such rights shall not constitute a legal or equitable discharge of any Borrower. Each Borrower also waives any defense arising from any act or omission of Bank that changes the scope of the Borrower's risks hereunder.

6. **Subrogation Defenses.** Each Borrower hereby waives any defense based on impairment or destruction of its subrogation or other rights against any other Borrower and waives all benefits which might otherwise be available to it under California Civil Code Sections 2809, 2810, 2819, 2839, 2845, 2848, 2849, 2850, 2899, and 3433 and California Code of Civil Procedure Sections 580a, 580b, 580d and 726, as those statutory provisions are now in effect and hereafter amended, and under any other similar statutes now and hereafter in effect.

7. **Right to Settle, Release.**

(a) The liability of Borrowers hereunder shall not be diminished by (i) any agreement, understanding or representation that any of the Obligations is or was to be guaranteed by another Person or secured by other property, or (ii) any release or unenforceability, whether partial or total, of rights, if any, which Bank may now or hereafter have against any other Person, including another Borrower, or property with respect to any of the Obligations.

(b) Without affecting the liability of any Borrower hereunder, Bank may (i) compromise, settle, renew, extend the time for payment, change the manner or terms of payment, discharge the performance of, decline to enforce, or release all or any of the Obligations with respect to a Borrower, (ii) grant other indulgences to a Borrower in respect of the Obligations, (iii) modify in any manner any documents relating to the Obligations with respect to a Borrower, (iv) release, surrender or exchange any deposits or other property securing the Obligations, whether pledged by a Borrower or any other Person, or (v) compromise, settle, renew, or extend the time for payment, discharge the performance of, decline to enforce, or release all or any obligations of any guarantor, endorser or other Person who is now or may hereafter be liable with respect to any of the Obligations.

8. **Subordination.** All indebtedness of a Borrower now or hereafter arising held by another Borrower is subordinated to the Obligations and the Borrower holding the indebtedness shall take all actions reasonably requested by Bank to effect, to enforce and to give notice of such subordination.

BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN ALL PARTIES, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES, AND (C) THIS WRITTEN AGREEMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF ANY OF THE PARTIES.

*[ Balance of Page Intentionally Left Blank ]*



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

**RHAPSODY INTERNATIONAL INC., a Delaware corporation**

By: /s/ William J. Patrizio

Name: William J. Patrizio

Title: Chief Executive Officer

**REALNETWORKS, INC. a Washington corporation**

By: /s/ Cary Baker

Name: Cary Baker

Title: Chief Financial Officer

**REALNETWORKS DIGITAL MUSIC OF CALIFORNIA, INC. , a California corporation**

By: /s/ Cary Baker

Name: Cary Baker

Title: Chief Financial Officer

**WESTERN ALLIANCE BANK, an Arizona corporation**

By: Elisa Sun

Name: Elisa Sun

Title: VP

**[ Signature Page to Loan and Security Agreement ]**

**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: August 5, 2019

/s/ Robert Glaser

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Robert Glaser

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

**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: August 5, 2019

/s/ Cary Baker

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Cary Baker

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

**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 June 30, 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: August 5, 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.

**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 June 30, 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: August 5, 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.