REALNETWORKS INC
Form 10-K
March 06, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)

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

For the Fiscal Year Ended December 31, 2013
OR

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

For the transition period from to
Commission file number 0-23137
RealNetworks, Inc.
(Exact name of registrant as specified in its charter)

Washington	91-1628146
(State of incorporation)	(I.R.S. Employer Identification Number)

1501 First Avenue South, Suite 600, Seattle, Washington, 98134
(206) 674-2700
(Address of principal executive offices, zip code, telephone number)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.001 per share	The NASDAQ Stock Market
Preferred Share Purchase Rights	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ¨ No þ

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 þ No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of the registrant was $172 million on June 30, 2013, based on the closing price of the common stock on that date, as reported on the Nasdaq Global Select Market. Shares held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's common stock outstanding as of February 28, 2014 was 35,835,900.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has incorporated by reference the information required by Part III of this Annual Report from its Proxy Statement relating to its 2014 Annual Meeting of Shareholders or an amendment to this Form 10-K, to be filed within 120 days after the end of its fiscal year ended December 31, 2013.

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PART I.

This Annual Report on Form 10-K 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:

- 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 and expectations for future acquisitions and divestitures;
- plans, strategies and expected opportunities for future growth, increased profitability and innovation;
- the prospects for creation and growth of strategic partnerships and the resulting financial benefits from such partnerships;
- the expected financial position, performance, growth and profitability of, and investment in, our businesses and the availability of resources;
- our involvement in potential claims, legal proceedings and government investigations, the expected course and costs of existing claims, legal proceedings and government investigations, and the potential outcomes and effects of both existing and potential claims, legal proceedings and governmental investigations on our business, prospects, financial condition or results of operations;
- the expected benefits and other consequences of our growth plans, strategic initiatives, and restructurings;
- our expected introduction of new and enhanced products, services and technologies across our businesses;
- 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;
- 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 included or referred to in the section of Item 1 entitled "Competition," in Item 1A entitled "Risk Factors" and in Item 3 entitled "Legal Proceedings." 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.

Item 1. Business

Overview

RealNetworks creates innovative applications and services that make it easy to connect with and enjoy digital media. We invented the streaming media category in 1995 and continue to connect consumers with their digital media both directly and through partners, aiming to support every network, device, media type and social network. We provide the digital media services and products we create to consumers, mobile carriers and other businesses.

Consumers use our services and software to find, purchase, store, organize, play and manage their digital media content. Our consumer products and services include RealPlayer, a widely distributed media player; casual games; and subscription services that provide access to storage and a wide variety of digital media content. Network service providers, such as mobile carriers, use our products and services to create and deliver digital media and messaging services, such as ringback tones, music on demand and intercarrier messaging, for their subscribers.

We were incorporated in 1994 in the State of Washington. Our common stock is listed on The NASDAQ Stock Market under the symbol “RNWK.”

In this Annual Report on Form 10-K for the year ended December 31, 2013 (10-K), RealNetworks, Inc., together with its subsidiaries, is referred to as “RealNetworks”, the “Company”, “we”, “us”, or “our”.

Segments

In the first quarter of 2013 we reorganized the management of our businesses and as a result, we now report the following three segments: (1) RealPlayer Group, (2) Mobile Entertainment, and (3) Games. In addition, we now also allocate certain corporate expenses which are directly attributable to supporting the business, including but not limited to a portion of finance, legal, human resources and headquarters facilities, to our reportable segments rather than retaining those expenses in our corporate segment. The historical financial information presented has been recast to reflect the new segments and the new corporate expense presentation.

RealPlayer Group

Our RealPlayer Group business consists of RealPlayer and related products and services, including RealPlayer Cloud, which we launched in the third quarter of 2013. Nearly all of the revenue in the segment in 2013 was derived from legacy products and services related to the RealPlayer, and these revenues were primarily generated in the U.S. and Canada.

RealPlayer. Our RealPlayer media player software includes features and services that enable consumers to discover, play, download, manage and edit digital video. Consumers can:

- Stream audio and video,
- Download and save their photos and web videos from thousands of websites,
- Transfer their photos and video content to and from portable devices,
- Share photos and video links with their contacts on social networks,
- Edit their own video content,
- Save CDs to their personal digital music libraries, and
- Burn CDs and transfer their audio and video content to portable devices.

We monetize RealPlayer primarily with revenue derived from sales of the premium version, and from distributing third-party software products, such as the Google toolbar and Google Chrome, to consumers who wish to download additional applications when downloading our software products. We also generate revenue through our RealPlayer subscription products, such as our recently launched RealPlayer Cloud, and legacy products such as SuperPass. RealPlayer Cloud is an integrated video player and cloud service, which is free to consumers up to a certain storage level after which additional storage is available based on a tiered subscription fee. SuperPass is our subscription service that provides consumers with access to a broad range of digital entertainment content for a monthly fee.

Licensing. In addition to consumer products, we also license our technology to a variety of mobile network operators worldwide. We have entered into agreements with companies such as Samsung, Nokia, and Lenovo to preinstall our mobile media player software on mobile phones.

Mobile Entertainment

Mobile Entertainment consists of the digital media services we provide to network service providers as software as a service (SaaS) offerings; and sales of Helix media solutions. Revenues from this segment are primarily in North America and Asia.

During the third quarter of 2013, we acquired Muzicall Limited, a U.K.-based provider of ringback tone services to mobile carriers and media companies. This acquisition is intended to accelerate our growth initiatives within the Mobile Entertainment segment, including our recent launch of LISTEN, a new ringback tone experience for smartphone users, in part by leveraging Muzicall's direct-to-consumer marketing approach.

SaaS. We develop and provide a variety of SaaS services including ringback tone (RBT), music on demand (MOD) and messaging services principally sold to mobile carriers. Our SaaS services generated most of the revenue within our Mobile Entertainment segment in 2013. In connection with our SaaS services, we also offer e-commerce services, including business intelligence, subscriber management and billing for our carrier customers. Our carrier customer base includes more than 200 mobile carriers worldwide.

Our RBT services enable callers to hear music instead of the traditional electronic ringing sound while waiting for the person they have called to answer. The RBT subscriber chooses the music heard by the subscriber’s callers. Our RBT services enable subscribers to select from a variety of ringback content, including music, pre-recorded messages by celebrities and sound effects. We offer RBT services via carriers, and, beginning in the fourth quarter of 2013, directly to consumers, through monthly subscriptions or on a per-tone basis. In return for providing, operating and managing the RBT service for carrier customers, we generally enter into revenue-sharing arrangements with the carriers based on monthly subscription fees, content download fees or a combination of such fees paid by subscribers.

Our MOD services allow carriers to offer their subscribers a wide range of songs for downloading or streaming to PCs, mobile phones and portable audio players. Users typically pay carriers for MOD service through monthly subscriptions or on a per-download basis, and we generally receive from the carriers a combination of a monthly fixed fee, a percentage of monthly subscription fees and a percentage of content download fees for providing the service.

Our intercarrier messaging (ICM) service routes and delivers short messaging service (SMS) messages between wireless carriers within the U.S. and internationally under the brand name Metcalf, through our partnership with Syniverse Holdings, Inc. The ICM service allows subscribers with any text-message capable handset to send and receive text messages to and from subscribers on other carrier networks. The revenue we earn from our ICM service is subject to our revenue-sharing arrangement with Syniverse.

Helix. Our Helix media solutions allow companies and institutions to broadcast live and on-demand audio, video and other multimedia programming to large numbers of simultaneous users over the Internet. Carriers, media companies and other enterprises typically pay upfront fees for either a perpetual or term-based license plus annual fees for upgrades and support.

Games

We own and operate a large casual games service, offering casual games via digital downloads, online subscription play, third-party portals, social networks and mobile devices. Casual games typically have simple graphics, rules and controls and are quick to learn. Casual games include board, card, puzzle, word and hidden-object games.

We develop, publish, license and distribute casual games. We have a large and diverse portfolio of original games developed by our in-house game studios, games developed by us from content we license from other intellectual property holders, and games licensed to us by third parties that we distribute to our customers. We also partner with external game developers who develop games for us on an outsourced basis, which gives those developers access to our large distribution network in exchange for distribution rights to their games. We distribute games principally in North America, Europe and Latin America through our GameHouse, Zylom and Atrativa websites and through websites owned or managed by third parties.

In the second quarter of 2013, we acquired U.S.-based Slingo, Inc., creator of a highly popular social casino game that combines bingo and slots. This acquisition is intended to enhance our footprint and differentiate our offering in the social casino games arena.

PC Games. Consumers can play and purchase games from our catalog of online and downloadable PC games. We typically introduce new games by offering a free trial before purchase on an individual basis or as part of one of our subscription services. In addition to revenue from sales of games and subscriptions, we generate revenue from display advertising that is shown to consumers during online play.

Social and Mobile Games. Game play on social networks is among the fastest growing trends in game play, and we have been focusing on developing, monetizing and optimizing social games and social game play experiences. In August 2013 we launched GameHouse Casino Plus with the Golden Dreams Sweepstakes feature, which is offered on Facebook and other mobile platforms. We monetize social and mobile games largely through sales of games licenses, advertising and

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microtransactions from mobile and social games. We have also adapted our games for play on more than 2,000 mobile handsets and launched several games for play on smartphones and tablets, which can be purchased via app stores.
See Note 18, Segment Information, in this 10-K for additional details on our segments.

Rhapsody

At December 31, 2013, we owned approximately 45% of the issued and outstanding stock of Rhapsody. See Note 4, Rhapsody Joint Venture, in this 10-K for additional details. Rhapsody provides products and services that enable consumers to have unlimited access to digital music content anytime from a variety of devices. The Rhapsody subscription service offers conditional downloads and on-demand streaming services through unlimited access to a catalog of millions of music tracks. Rhapsody also operates an MP3 music store, where consumers can purchase and permanently download individual digital music tracks. Rhapsody currently generates revenue primarily in the U.S. through subscriptions to its music services, and sales of tracks and advertising.

Customers and Seasonality

Our customers include consumers and businesses located throughout the world. Sales to customers outside the U.S., primarily in Asia and Europe, were 56%, 54% and 52% of our revenue during the years ended December 31, 2013, 2012 and 2011, respectively. See Note 6, Allowance for Doubtful Accounts Receivable and Sales Returns, for details on customer revenue concentrations.

We experience seasonality in our business, particularly with respect to the fourth quarter of our fiscal year. Our consumer businesses, which include advertising revenue, make up a large percentage of our revenue, and the fourth quarter has traditionally been the seasonally strongest quarter for Internet advertising.

Research and Development

We devote a substantial portion of our resources to developing new products, enhancing existing products, expanding and improving our fundamental technology, and strengthening our technological expertise in all our businesses. During the years ended December 31, 2013, 2012, and 2011, we expended 30%, 24% and 21%, respectively, of our revenue on research and development activities.

Sales, Marketing and Distribution

Our marketing programs are aimed at increasing brand awareness of our products and services and stimulating demand. We use a variety of methods to market our products and services, including paid search advertising, affiliate marketing programs, advertising in print, electronic and other online media, direct mail and email offers to qualified potential and existing customers, and providing product specific information through our websites. We also cross-market products and services offered by some of our businesses through the RealPlayer and Games marketing and distribution channels. We also have subsidiaries and offices in several countries that market and sell our products outside the U.S.

Our products and services are marketed through direct and indirect channels. We use public relations, trade shows, events and speaking opportunities to market our products and services. We also use a variety of online channels, including social media, to promote and sell our products and services directly.

RealPlayer Group. We market and sell our RealPlayer services directly through our own websites such as Real.com and GameHouse.com, as well as indirectly through affiliate partnerships. Prior to outsourcing our advertising sales function in 2012, we had a global sales force that generated advertising revenue from our websites and free consumer applications such as RealPlayer.

Mobile Entertainment. Our Mobile Entertainment sales, marketing and business development team works closely with many of our enterprise, infrastructure, wireless, broadband and media customers to identify new business opportunities for our entertainment applications, services and systems. Through ongoing communications with the product and marketing divisions of our customers, we tailor our SaaS offerings to their strategic needs and the needs of their subscribers. A large network of distributors including hardware server companies, content aggregators, Internet service providers and other resellers, provide end users access to our Helix streaming technology.

Games. Our games are marketed directly from our websites and through third-party distribution channels, such as broadband service providers, search engines, online portals, mobile phone application stores, major social networks and content publishers.

Customer Support

Customer support is integral to the provision of nearly all of our consumer products and services. Consumers who purchase and use our consumer software products and services, including games and RealPlayer Plus, can get assistance via the

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Internet, email or telephone, depending on the product or service. For most of our consumer products, we contract with third-party outsource support vendors to provide the primary staffing for our first-tier customer support globally. We also provide various support service options for our business customers and for software developers using our software products and associated services. Support service options include hotline telephone support, online support services, and on-site support personnel covering technical and business-related support topics.

Competition

The market for software and services for digital media delivery over the Internet and wireless networks is intensely competitive. Many of our current and potential competitors have longer operating histories, greater name recognition or brand awareness, more employees or significantly greater resources than we do.

RealPlayer Group

RealPlayer. We expect competition for media player and cloud users to continue to be intense as the markets and business models for Internet video content and storage mature and more competitors enter these markets. RealPlayer competes with alternative streaming media playback technologies such as Microsoft Windows Media Player and Adobe Flash and their related file formats, each of which has obtained very broad market penetration. Our video and photo transfer services within RealPlayer compete primarily on the basis of the quality and perceived value of the content and services we provide and on the effectiveness of our distribution network and marketing programs.

Mobile Entertainment

SaaS. We compete with a large and diverse number of domestic and international companies in our SaaS business, and each of our SaaS offerings tends to face competitors specific to that product or service. Our SaaS business continues to experience competitive pricing pressure from carriers and the proliferation of smartphone applications and services, some of which do not depend on our carrier customers for distribution to consumers. We compete largely based on time-to-market, feature sets, ease of use, operational expertise, our ability to offer an integrated suite of entertainment services, customer care and price. Many of our SaaS services require a high degree of integration with carrier or service provider networks and thus require a high degree of operational expertise. In addition, our ability to enhance services with new features as the digital entertainment market evolves is critical to our competitive position, as is our knowledge of the consumer environment to which these services are targeted.

Helix. We believe that the primary competitive factors in the digital-media delivery and licensing market include the quality, reliability, price and licensing terms of the overall media delivery solution, ubiquitous and easy consumer accessibility to media playback capability, broad distribution and use of products, and the ability to license and support popular and emerging media formats for digital media delivery. Our competitors in the market for digital media servers, players, encoders, digital rights management, codec and other technology and services related to digital distribution of media include Adobe, Apple, Microsoft and Google.

Games

Our Games business competes with a variety of distributors, publishers and developers of casual games for the PC and mobile platforms and for social networks. We compete in this market primarily on the basis of the quality and convenience of our services, the reach and quality of our distribution and the quality and breadth of our game catalog. In addition, the market for casual games has become increasingly price competitive in recent years. Our in-house content development studios compete with other developers and publishers of social and mobile games. Our studios compete based on our ability to develop and publish high quality games that resonate with consumers, our effectiveness at building our brands, and our ability to secure broad distribution relationships with major social networks and mobile carriers. Our social and mobile games compete with a range of developers, including but not limited to Zynga Inc., Wooga GmbH, and Electronic Arts Inc. Our family of websites serving the PC casual games market competes with other high volume distribution channels for downloadable, online and social games including but not limited to Yahoo! Games, MSN Games, Big Fish Games, and Amazon.com.

Intellectual Property

As of December 31, 2013, we had three U.S. patents, 41 South Korean patents, 13 patents in other countries and more than 40 pending patent applications worldwide relating to various aspects of our technology. In 2012, we completed the sale of certain patents, patent applications and related rights held by us, and certain of our assets relating to our next generation video codec technologies to Intel. The patent and patent application amounts above reflect the effect

of this sales transaction. We plan to continue to prepare additional patent applications on other current and anticipated features of our technology in various jurisdictions across the world.

In addition to our patent portfolio, we have assembled, over time, an international portfolio of trademarks and service marks that covers certain of our products and services. We also have applications pending for several more trademarks and service marks in jurisdictions around the world, and have several unregistered trademarks. Many of our marks begin with the word “Real” (such as RealPlayer). We are aware of other companies that use “Real” in their marks alone or in combination with other words, and we do not expect to be able to prevent all third-party uses of the word “Real” for all goods and services.

Our ability to compete across our businesses partly depends on the superiority, uniqueness and value of our technology that we both develop and license 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. These efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology, or may not prevent the development and design by others of products or technologies similar to or competitive with those we develop.

Employees

At December 31, 2013, we had approximately 946 employees, of which 457 were based in the Americas, 336 were based in Asia, and 153 were based in Europe. None of our employees are subject to a collective bargaining agreement.

Position on Charitable Responsibility

In periods when we have achieved sustained profitability, we intend to donate 5% of our net income to charitable organizations, which will reduce our net income for those periods. The non-profit RealNetworks Foundation manages a substantial portion of our charitable giving efforts. We attempt to encourage employee giving by using a portion of our intended contribution to match charitable donations made by employees.

Available Information

Our corporate Internet address is www.realnetworks.com. We make available free of charge on www.investor.realnetworks.com our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). However, the information found on our corporate website is not part of this or any other report.

Item 1A. Risk Factors

You should carefully consider the risks described below together with all of the other information included in this annual report on Form 10-K. 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 business and financial results will be materially adversely impacted if we are unable to successfully implement our growth plan, strategic initiatives and restructuring efforts.

We have developed a growth plan that involves the launch of at least one major new product in each of our three business units. In tandem with our growth plan, we have embarked upon strategic initiatives intended to simplify and accelerate our operations, and restructuring efforts intended to streamline costs and bring more focus to our businesses. The simultaneous execution of all of these measures is ambitious and we have not attempted to pursue this level of transition in our history. We can provide no assurance that we will be successful in implementing our growth plan, strategic initiatives, and restructuring efforts, and our failure to do so would have a material adverse impact on our business and financial results.

We need to successfully introduce new products and services to sustain and grow our businesses.

In order to sustain our current business and to implement our growth plan, we must successfully introduce new products and services. The process of developing new, and enhancing existing, products and services is complex, costly and uncertain, and is subject to a number of risks. Providing products and services that are attractive and useful to subscribers and consumers is in part subject to unpredictable and volatile factors beyond our control, including end-user preferences and competing products and services. Any failure by us to timely respond to or accurately anticipate consumers’ changing needs, emerging technological trends or important changes in the market or

competition for products and services we plan to introduce could significantly harm our current market share or result in the loss of market opportunities. In addition, we must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether the

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products and services that we are developing will meet the needs of a large enough group of consumers, which may result in no return or a loss on our investments.

Our products and services have historically been provided through desktop computers and feature phones, but the number of people who access similar products and services through smartphones and tablets has increased dramatically in the past few years. There are many challenges involved in developing and marketing products and services for users of smartphones and tablets. There is no guarantee that we will be able to create and effectively monetize popular and successful products for smartphones and tablets.

In addition, our consumer-based products and services have historically been distributed through desktop operating platforms. As new operating systems are introduced or updated for these platforms, we could face difficulties reaching our traditional customer base and other unknown distribution challenges. If we are unable to successfully develop and introduce new products and services, or have difficulty transitioning product and version releases that can easily be distributed through these new or updated operating systems and devices, then our business could be significantly harmed.

Furthermore, new products and services may be subject to legal challenge. Responding to these potential 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 materially harm our operating results.

Our restructuring efforts may not yield the anticipated benefits to our shareholders.

During 2012, we took steps to restructure and simplify our business and operations. In September 2012, we announced plans to divisionalize our business, which we implemented during the first quarter of 2013, and to significantly reduce operating expenses, in part through a reduction in our workforce that was concluded as of the end of the second quarter of 2013. There can be no assurance that our efforts will be successful. Our business and operations may be harmed to the extent there is customer or employee uncertainty surrounding the future direction of our product and service offerings and strategy for our businesses. Our restructuring activities have included implementing cost-cutting initiatives, which may not lead to future profitability and which could materially impact our ability to compete in future periods. If we are unable to effectively re-align the cost structure of our businesses or streamline and simplify our operations, our stock price may be adversely affected, and we and our shareholders will not realize the anticipated financial, operational and other benefits from such initiatives.

The mobile entertainment market is highly competitive and evolving rapidly.

The market for mobile entertainment services, including our ring back tones and music on demand solutions, is highly competitive and evolving rapidly, particularly with the growth in the use of smartphones. Increased use of smartphones has resulted in a proliferation of applications and services that compete with our SaaS services and, in many cases, are not dependent upon our carrier customers to make them available to subscribers. To maintain or enhance our competitive position, we need to develop new SaaS services that enable our carrier customers to compete with the broad range of applications and other services available in the market. We face competition, and may face future competition, from major media companies, Internet portal companies, content aggregators, wireless software providers and other pure-play wireless entertainment publishers, some of which have greater financial resources than we do. Furthermore, while most of our carrier customers do not offer internally developed services that compete with ours, if our carrier customers begin developing these services internally, we could be forced to lower our prices or increase the amount of service we provide in order to maintain our business with those carrier customers. Increased competition has in the past resulted in pricing pressure, forcing us to lower the selling price of our services. If we are unable to develop or provide services that compete effectively in the mobile entertainment market, our operating results and financial condition may be materially harmed.

Our non-SaaS businesses also face substantial competitive challenges that may prevent us from being successful in those businesses, and may negatively impact future growth in those businesses.

Many of our current and potential competitors in our businesses have longer operating histories, greater name recognition, more employees and significantly greater resources than we do. To effectively compete in the markets for our products and services, we may experience 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 provide content we distribute to our customers,
- changes to our products, services, technologies, licenses or business practices or strategies,
- lengthened sales cycles,
- industry-wide changes in content distribution to customers or in trends in consumer consumption of digital media products and services,

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- pressure to prematurely release products or product enhancements, or
- degradation in our stature or reputation in the market.

Our legacy RealPlayer software services compete with alternative streaming media playback technologies and audio and video formats including Microsoft Windows Media Player and Adobe Flash and their related file formats, each of which has obtained very broad market penetration. In addition, our overall ability to sell subscription services depends in part on the use of our formats on the Internet, and declines in the use of our formats have negatively affected, and are expected to continue to negatively affect, our subscription revenue and increase costs of obtaining new subscribers. Our SuperPass subscription service, within our RealPlayer business unit, faces competition from a broad variety of entertainment sources, including traditional media outlets and emerging Internet media sources. We expect this competition to continue to be intense as the market and business models for Internet video content mature and more competitors enter these new markets. If we are unable to compete successfully, including through the introduction of compelling new products and services, our RealPlayer business could continue to decline.

The branded services in our Games business compete with other online aggregators and distributors of online, downloadable and social casual PC games. Some of these competitors have high volume distribution channels and greater financial resources than we do. Our Games business also competes with many other smaller companies that may be able to adjust to market conditions, including responding effectively to the growing popularity of casual games on social networks, faster than us. We also face significant price competition in the casual games market, and some of our competitors may be able to lower prices more aggressively than us. We expect competition to continue to intensify in this market from these and other competitors. We cannot provide assurance that we will be able to achieve growth in our revenue, particularly as we continue to invest in social and mobile games as the market for these games continues to rapidly evolve. Our games development studios compete primarily with other developers of online, downloadable, mobile and social casual PC 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 social networks, in order to maintain our competitive position and to grow the business.

Contracts with our carrier customers subject us to significant risks that could negatively impact our revenue or otherwise harm our operating results.

We derive a material portion of our revenue from the SaaS offerings we provide to carriers. Many of our SaaS contracts with carriers provide for revenue sharing arrangements, but we have little control over the pricing decisions of our carrier customers. Furthermore, most of these contracts do not provide for guaranteed minimum payments or usage levels. Because most of our carrier customer contracts are nonexclusive, it is possible that our mobile carrier customers could purchase similar services from third parties and cease to use our services in the future. As a result, our revenue derived under these agreements could be substantially reduced depending on the pricing and usage decisions of our carrier customers. In addition, some of our SaaS contracts require us to incur significant set-up costs prior to the launch of services with a carrier customer. For example, in the fourth quarter of 2011, we reduced our forecast for profitability associated with certain carrier customer contracts for which the total costs exceeded the total revenue we expect to recognize from these contracts, and as a result, we recorded impairment of deferred costs totaling $20.0 million. There can be no assurance that we will not record additional impairments or other charges in future periods related to our carrier customer contracts, which would negatively impact our results of operations.

In addition, none of our SaaS contracts with carriers obligates our carrier customers to market or distribute any of our SaaS offerings. Despite the lack of marketing commitments, revenue related to our SaaS offerings is, to a large extent, dependent upon the marketing and promotion activities of our carrier customers. In addition, many of our carrier contracts are short term and allow for early termination by the carrier with or without cause. These contracts are therefore subject to renegotiation of pricing or other key terms that could be adverse to our interests and leave us vulnerable to non-renewal by the carriers. The loss of carrier customers, a reduction in marketing or promotion of our SaaS offerings, or the termination, non-renewal or renegotiation of contract terms that are less favorable to us would likely result in the loss of future revenues from our SaaS offerings.

Finally, nearly all of our carrier contracts obligate us to indemnify the carrier customer 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. Pursuant to these indemnification obligations, we have in the past agreed to control the defense on behalf of certain of our carrier customers related to patent infringement proceedings. We have recently settled one such litigation matter, and continue to vigorously defend another. See Note 16, Commitments and Contingencies, to our Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for information regarding these matters. Future claims against

which we may be obligated to defend our carrier customers could result in payments that could materially harm our business or our consolidated financial statements.

A majority of the revenue that we generate in our Mobile Entertainment business segment is dependent upon our relationship with a few customers, and any deterioration of these relationships could materially harm our business.

We generate a significant portion of our revenue from sales of our mobile entertainment services to a few of our mobile carrier customers. In the near term, we expect that we will continue to generate a significant portion of our total revenue from these customers. If these customers fail to market or distribute our services or terminate their business contracts with us, or if our relationships with these customers deteriorate in any significant way, we may be unable to replace the affected business arrangements with acceptable alternatives. Failure to maintain our relationships with these customers could have a material negative impact on our revenue and operating results.

We may not be successful in maintaining and growing our distribution of digital media products.

Maintaining and growing the distribution of digital media products through our websites and our other distribution channels is important to our future prospects, including future growth through the introduction of new products and services distributed through these channels. We cannot predict whether consumers will continue to download and use our digital media products consistent with past usage, which may reduce our ability to generate revenue from those products as well as result in lower than expected adoption of newly introduced products and services. Our inability to maintain continued high volume distribution of our digital media products could also hold back the growth and development of related revenue streams from these market segments, including the distribution of third-party products and sales of our subscription services, and therefore could harm our business and our prospects. Our revenue from the distribution of third-party products will also be negatively impacted if those products are not widely downloaded by consumers, including due to the relative market saturation of such products. In addition, our revenue from the distribution of third party products is currently significantly dependent on a single customer contract. If that contract is not renewed or is terminated and cannot be replaced by another similar customer contract, our financial results would be harmed.

Our operating results are difficult to predict and may fluctuate, which may contribute to volatility in our stock price.

The trading price for our common stock has a history of volatility. Our stock price ranged from $6.96 to $8.85 per share during the 52-week period ended December 31, 2013. As a result of the rapidly changing markets in which we compete, our operating results may fluctuate from period to period, which may contribute to the continued volatility of our stock price. In past periods, our operating results have been affected by personnel reductions and related restructuring charges, lease exit and related charges, and impairment charges for certain of our equity investments, goodwill and other long-lived assets. Our operating results may be adversely affected by similar or other charges or events in future periods, including, but not limited to:

- impairments of long-lived assets,
- integrating and operating newly acquired businesses and assets, and
- the general difficulty in forecasting our operating results and metrics, which could result in actual results that differ significantly from expected results.

Certain of our product and service investment decisions (for example, research and development and sales and marketing efforts) are based on predictions regarding business and the markets in which we compete. Fluctuations in our operating results, particularly when experienced beyond what we expected, could cause the trading price of our stock to continue to fluctuate.

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

Our operating results have been and could continue to be adversely impacted by the loss of subscription revenue. Subscribers may 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 has declined in recent periods due in part to our focus on other products and services we offer, and we expect this trend to continue. For the subscription services we offer, we must continue to obtain compelling digital media content for our video and games services in order to maintain and increase usage and overall customer satisfaction for these products. Our operating results may be negatively impacted

if we cannot obtain content for our subscription services on commercially reasonable terms.
Government regulation of the Internet is evolving, and unfavorable developments could have an adverse affect on our operating results.

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We are subject to regulations and laws specific to the marketing, sale and delivery of goods and services over the Internet. These laws and regulations, which continue to evolve, cover taxation, user privacy, data collection and protection, copyrights, electronic contracts, sales procedures, automatic subscription renewals, credit card processing procedures, consumer protections, digital games distribution, broadband Internet access and content restrictions. We cannot guarantee that we have been or will be fully compliant in every jurisdiction, as it is not entirely clear how existing laws and regulations governing issues such as privacy, taxation and consumer protection apply or will be enforced with respect to the products and services we sell through the Internet. Moreover, as Internet commerce continues to evolve, increasing regulation and/or enforcement efforts by federal, state and foreign agencies and the prospects for private litigation claims related to our data collection, privacy policies or other e-commerce practices become more likely. In addition, the adoption of any laws or regulations or the imposition of other legal requirements that adversely affect our ability to market, sell, and deliver our products and services could decrease our ability to offer or customer demand for our service offerings, resulting in lower revenue. Future regulations, or changes in laws and regulations or their existing interpretations or applications, could also require us to 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. On May 24, 2012, we resolved an investigation and complaint filed against us by the Washington State Office of the Attorney General, or Washington AG, relating to our consumer marketing practices through the entry of a consent decree filed in King County, Washington Superior Court. For details on this action and the related costs we incurred in 2012, see Note 16, Commitments and Contingencies, in our 2012 10-K. While we have resolved this matter, we cannot provide assurances that the Washington AG or other governmental agencies will not bring future claims regarding our marketing, or consumer services or other practices.

Uncertainty and adverse conditions in the economy could have a material adverse impact on our business, financial condition and results of operations.

The ongoing weakness in the national and global economy has resulted in declines in overall consumer and corporate spending, declines in consumer and corporate access to credit, fluctuations in foreign exchange rates, declines in the value of assets and increased liquidity risks, all of which could materially impact our business, financial condition and results of operations. We provide digital entertainment services to consumers directly and indirectly through our carrier customers. Consumers may consider the purchase of our products and services to be a discretionary expenditure. As a result, consumers considering whether to purchase our products or services may be influenced by macroeconomic factors that affect consumer spending such as unemployment, conditions in the residential real estate and mortgage markets and access to credit when making a determination whether to commence, continue, or stop subscribing to or otherwise purchasing our products and services. In addition, businesses may reduce their advertising spending during adverse macroeconomic conditions, which would negatively impact the revenue we generate through sales of advertising on our websites and other properties. We have recorded material asset impairment charges in recent years due in part to weakness in the global economy, and if the ongoing significant weakness and uncertainty in the global economy continues, we may need to record additional impairments to our assets in future periods. If any of these risks are realized, we may experience a material adverse impact on our financial condition and results of operations.

Rhapsody could continue to recognize losses, which would negatively impact our results of operations and financial condition.

On March 31, 2010, we completed the restructuring of our digital audio music service joint venture, Rhapsody America LLC. As a result of the restructuring, we no longer have operational control over Rhapsody and Rhapsody's operating performance is no longer consolidated with our consolidated financial statements. Rhapsody has generated accounting losses since its inception and we have recognized losses on our investment in Rhapsody since the restructuring. If Rhapsody continues to incur losses, or if it otherwise experiences a significant decline in its business, we may incur further losses on our investment, which could have an adverse effect on our financial condition and

results of operations.

Given the current proportion of the outstanding equity of Rhapsody that we hold, we need to receive Rhapsody's unaudited quarterly financial statements and related information in order to timely prepare our quarterly consolidated financial statements and also to report certain of Rhapsody's financial results, as may be required, in our quarterly reports on Form 10-Q. In addition, we may be required to include Rhapsody's annual audited financial statements in our annual report on Form 10-K in future periods. As we no longer exert operational control over Rhapsody, we cannot guarantee that Rhapsody will deliver its financial statements and related information to us in a timely manner, or at all, or that the unaudited financial statement information provided by Rhapsody will not contain inaccuracies that are material to our reported results. Any failure to timely

obtain Rhapsody's quarterly financial statements or to include its audited financial statements in our future annual reports on Form 10-K, if required, could cause our reports to be filed in an untimely manner, which would preclude us from utilizing certain registration statements and could negatively impact our stock price.

The loss of key personnel, or difficulty recruiting and retaining them, could significantly harm our business or jeopardize our ability to meet our growth objectives.

Our success depends substantially on the contributions and abilities of certain key executives and employees. We have experienced a significant amount of executive-level turnover in the past several years, which has had and could continue to have a negative impact on our ability to retain key employees. In July 2012, Rob Glaser, our founder, Chairman and initial chief executive officer, was appointed as interim chief executive officer, having stepped down as chief executive officer in 2010. We cannot provide assurance that we will effectively manage this or any other executive-level transition, which may impact our ability to retain our remaining key executives and employees and which could harm our business and operations to the extent there is customer or employee uncertainty arising from such transitions.

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 intense, and we may incur significant costs to attract or retain them. Our ability to attract and retain personnel may also be made more difficult by the uncertainty created by our recent executive-level turnover and by our restructuring efforts, which involved a reduction in our workforce. 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. 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 significant negative impact on our future operating 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; and
- assumption of known and unknown liabilities of the acquired company, including intellectual property claims.

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 and services or effectively prevent misappropriation of our technology. We also routinely receive challenges to our trademarks and other

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proprietary intellectual property that we are using in our business activities in China. 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. While we sold to Intel Corporation in 2012 most of our patents, including patents that covered streaming media, we agreed to indemnify Intel for certain third-party infringement claims against these patents up to the purchase price we received in the sale. We may also be forced to litigate to enforce or defend our patents and other intellectual property rights or to determine the validity and scope of other parties' proprietary rights, enter into royalty or licensing agreements on unfavorable terms or redesign our product features and services. Any such dispute would likely be costly and distract our management, and the outcome of any such dispute could fail to improve our business prospects or otherwise harm our business.

From time to time we receive claims and inquiries from third parties alleging that our technology may infringe the third parties' proprietary rights, especially patents. Third parties have also asserted and most likely will continue to assert claims against us alleging contract breaches, infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition or violations of privacy rights. These claims, even if not meritorious, could force us to spend significant financial and managerial resources. 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. On July 3, 2012, VoiceAge Corporation brought a lawsuit against us alleging breach of our obligation to pay them licensing fees under our patent license agreement with VoiceAge and seeking a material amount in damages. While we have settled the dispute with VoiceAge, similar future lawsuits could result in significant legal expenses, monetary damages, penalties or injunctive relief against us that could have a material adverse impact on our future consolidated financial statements. The VoiceAge matter and certain other claims are described in Note 16, Commitments and Contingencies. In addition, in 2012 we sold substantially all of our patent assets to Intel. We believe that our patent portfolio may have in the past discouraged third parties from bringing infringement or other claims against us relating to the use of our technologies in our business. Accordingly, we cannot predict whether the sale of these patent assets to Intel will result in additional infringement or other claims against us from third parties.

Our business and operating results will suffer 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. A significant or repeated reduction in the performance, reliability, security or availability of our information systems and network infrastructure could harm our ability to conduct our business, and harm our reputation and ability to attract and retain users, customers, advertisers and content providers. 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 could result from our failure to adequately maintain and enhance these systems and networks, natural disasters and similar events, power failures, HVAC failures, intentional actions to disrupt our systems and networks and many other causes. The vulnerability of a large portion of our computer and communications infrastructure is enhanced because much of it is located at two leased facilities in Seattle, Washington, an area that is at heightened risk of earthquake, flood, and volcanic events. 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.

The growth of our business is dependent in part on successfully managing our international operations.

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 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 or the Korean won, may result in lower reported revenue or net assets in future periods. Our foreign currency exchange risk management program reduces, but does not eliminate, the impact of currency exchange rate movements. 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.

We may be subject to market risk and legal liability in connection with our data collection and data security capabilities.

Many of our products are interactive Internet applications that by their very nature require communication between a client and server to operate. For example, to provide better consumer experiences and to operate effectively, our products send information, including personally identifiable information, to our servers. In addition, we sell many of our products and services through online sales transactions directly with consumers, through which we collect and store credit card information. In connection with our direct sales to consumers, we may be the victim of fraudulent transactions, including credit card fraud,

which presents a risk to our revenue and potentially disrupts service to our consumers. While we take measures to protect our consumer data, we have experienced unauthorized access to our consumer data in the past, and it is possible that our security controls over consumer data 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 and server products. A security breach that leads to disclosure of consumer account information (including personally identifiable information) or any failure by us to comply with our posted privacy policy or existing or new legislation regarding privacy issues could harm our reputation, impact the market for our products and services, subject us to litigation, and require us to expend significant resources to mitigate the breach of security, comply with breach notification laws or address related matters. In addition, we will also need to maintain compliance with the Payment Card Industry, or PCI, compliance standard for data security, which we recently achieved, in connection with our use of credit card services for payment. If we fail to maintain the PCI compliance standards we may be subject to substantial monetary penalties and we could lose the ability to accept credit card payments for transactions with our customers. Any of these consequences could materially harm our business or our consolidated financial statements.

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

We may be subject to additional income tax assessments.

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 interim Chief Executive Officer beneficially owns approximately 36% of our stock, which gives him significant control over certain major decisions on which our shareholders may vote or may discourage an acquisition of us.

Robert Glaser, our Chairman of the Board and interim Chief Executive Officer, beneficially owns approximately 36% 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 and his affiliates 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:

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- 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, which provides that shares of our common stock have associated preferred stock purchase rights. The exercise of these rights would make the acquisition of RealNetworks by a third party more expensive to that party and has 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate and administrative headquarters and certain research and development and sales and marketing personnel are located at our facility in Seattle, Washington.

We lease properties primarily in the following locations that are utilized by all of our business segments, unless otherwise noted below, to house our research and development, sales and marketing, and general and administrative personnel:

Location	Area leased (sq. feet)	Lease expiration
Seattle, Washington	86,000	August 2024, with an option to renew for two five-year periods
Seoul, Republic of Korea(1)	30,000	October 2014
Reston, Virginia(1)	29,000	September 2017

(1) This facility is utilized only by our Mobile Entertainment segment.

In addition, we lease smaller facilities in the U.S. and foreign countries, some of which support the operations of all of our business segments while others are dedicated to a specific business segment. For additional information regarding our obligations under leases, see Note 16, Commitments and Contingencies, in this 10-K.

Item 3. Legal Proceedings

See Note 16, Commitments and Contingencies, in this 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

PART II.

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on The NASDAQ Stock Market under the symbol RNWK.

The high and low sale prices for our common stock were as follows:

	Years Ended December 31,			
	2013		2012	
	High	Low	High	Low
First Quarter	$7.90	$7.20	$11.19	$6.88
Second Quarter	7.75	7.25	10.00	8.13
Third Quarter	8.55	6.96	8.78	7.48
Fourth Quarter	8.85	7.12	8.57	6.80

As of February 28, 2014, there were approximately 160 holders of record of our common stock. Most shares of our common stock are held by brokers and other institutions on behalf of shareholders.

In 2011 we paid a special cash dividend of $1.00 per common share to the holders of our common stock. The payment of the special dividend was based on an analysis of RealNetworks capital structure and the belief that we had excess cash relative to our future operational or strategic needs. The declaration and payment of any future dividends, as well as the amount thereof, are subject to the discretion of our board of directors and will depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by our board of directors. Accordingly, there can be no assurance that we will declare and pay any dividends in the future.

Comparison of 5 year cumulative total return to shareholders on RealNetworks, Inc., common stock with the cumulative total return on the NASDAQ Composite Index and the Dow Jones U.S. Technology Index for the period beginning on December 31, 2008 and ended on December 31, 2013.

The total return on our common stock and each index assumes the value of each investment was $100 on December 31, 2008, and that all dividends were reinvested. Return information is historical and not necessarily indicative of future performance.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this report.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Net revenue	$206,196	$258,842	$335,686	$401,733	$562,264
Cost of revenue	79,091	103,731	126,637	144,723	222,142
Impairment of deferred costs	—	—	19,962	—	—
Gross profit	127,105	155,111	189,087	257,010	340,122
Sale of patents and other technology assets, net of costs	—	116,353	—	—	—
Operating expenses:					
Research and development	60,880	63,194	70,212	100,955	119,448
Sales and marketing	80,011	90,301	111,300	118,543	165,856
Advertising with related party	—	—	—	1,065	33,292
General and administrative	36,643	43,891	37,181	51,217	79,164
Impairment of goodwill	—	—	—	—	175,583
Restructuring and other charges	5,765	15,225	8,650	12,361	4,017
Lease exit and related charges (gains)	3,089	3,290	(646)	7,396	—
Loss on litigation settlements	11,525	—	—	—	—
Total operating expenses	197,913	215,901	226,697	291,537	577,360
Operating income (loss)	(70,808)	55,563	(37,610)	(34,527)	(237,238)
Other income (expense), net (A)	16,721	1,796	(6,819)	204	(2,470)
Income (loss) before income taxes	(54,087)	57,359	(44,429)	(34,323)	(239,708)
Income tax expense (benefit)	4,903	12,518	(17,329)	(36,451)	3,321
Net income (loss)	(58,990)	44,841	(27,100)	2,128	(243,029)
Net loss attributable to the noncontrolling interest in Rhapsody	—	—	—	2,910	26,265
Net income (loss) attributable to common shareholders	$(58,990)	$44,841	$(27,100)	$5,038	$(216,764)
Diluted net income (loss) per share attributable to common shareholders	$(1.66)	$1.28	$(0.79)	$0.26	$(6.55)
Shares used to compute diluted net income (loss) per share	35,553	35,122	34,185	34,013	33,653
Special cash dividend of $1.00 per common share	—	—	$136,793	—	—

(A) Includes a $21.4 million pretax gain from the sale of equity securities in 2013. See Note 5, Fair Value Measurements, in this 10-K for more details.

	As of December 31, 2013	2012	2011	2010	2009
	(In thousands)				
Consolidated Balance Sheets Data:					
Cash, cash equivalents, and short-term investments	$226,155	$271,414	$185,072	$334,321	$384,900
Working capital	191,522	237,646	160,787	286,315	278,198
Total assets	342,781	433,897	393,397	577,936	606,883
Shareholders' equity	268,981	342,728	286,894	425,239	375,811

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We manage our business and report our financial results in three segments: (1) RealPlayer Group, (2) Mobile Entertainment, and (3) Games. Within our RealPlayer Group, revenue is derived from the sale of our RealPlayer media player software and related products, such as the distribution of third party software products, advertising on RealPlayer websites, and sales of RealPlayer Plus software licenses to consumers, sales of intellectual property licenses, and consumer subscriptions such as SuperPass and our recently launched RealPlayer Cloud service. Our Mobile Entertainment business generates revenue from the sale of its SaaS services, which include ringback tones, music on demand, and intercarrier messaging, and sales of technology licenses of our software products such as Helix. Our Games business revenue is derived from sales of games licenses, online games subscription services, advertising on games sites and social networks, microtransactions within online and social games, and sales of mobile games.

We allocate certain corporate expenses which are directly attributable to supporting our businesses, including but not limited to a portion of finance, legal, human resources and headquarters facilities, to our reportable segments rather than retaining those expenses in our corporate segment. The allocation of these costs to our business units ensures accountability for financial and operational performance within each of our reportable segments. Our most significant expenses relate to cost of revenue, compensating employees, and selling and marketing our products and services.

In 2013 our consolidated revenue declined by $52.6 million compared with 2012, due to a decrease of $19.1 million in Mobile Entertainment revenue, a $17.2 million decrease in Games revenue, and a $16.3 million decrease in RealPlayer Group revenue.

Revenue from our legacy products continues to decline as a result of certain changes in our businesses and market-driven factors. Our SaaS business within Mobile Entertainment continues to be negatively impacted by the proliferation of smartphone applications and services, some of which do not depend on our carrier customers for distribution to consumers. In addition, we are still experiencing pricing pressure from carriers for our intercarrier messaging services. In our Games segment, our business continues to be challenged as consumer game play continues to shift from downloadable PC games to social networks and mobile devices. Since 2011, we have been focusing on developing social and mobile games and monetizing those game play experiences. In our RealPlayer Group segment, revenue is being negatively impacted due to a decline in subscribers, primarily attributable to our SuperPass product.

Over the past twelve months we have developed a growth plan, implemented strategic initiatives, and executed certain restructuring efforts, all in an effort to grow our businesses, move towards profitability, and streamline our operations.

In line with our growth plan, we continue to invest in each of our three business units. From an organic growth perspective, we have invested in the internal development of major new products, including the August 2013 launch from our Games business of GameHouse Casino Plus with the Golden Dreams Sweepstakes feature, the September 2013 launch from our RealPlayer Group of RealPlayer Cloud, an integrated video player and cloud service, and the November 2013 launch from our Mobile Entertainment business of LISTEN, a ringback tone application and service for smartphone users. Complementing these internal development efforts, we have made certain targeted acquisitions including the second quarter 2013 acquisition of U.S.-based Slingo, Inc., creator of a highly popular social casino game that combines bingo and slots, for total cash consideration of $15.6 million. We expect this acquisition to enhance our footprint in the social casino games arena. During the third quarter, we acquired U.K.-based Muzicall Limited, a provider of ringback tone services to mobile carriers and media companies in Europe, for total cash consideration of $6.7 million. This acquisition is intended to accelerate our growth initiatives in the

direct-to-consumer business within the Mobile Entertainment segment. We expect to continue to invest in our growth initiatives.

In addition to our revenue growth plans, we have continued to better align our operating expenses with our revenue profile. In line with this, during the third quarter of 2012, we initiated a restructuring that eliminated approximately 160

positions worldwide. During the third quarter of 2013, we moved our Seattle headquarters, which required certain one-time lease termination and move costs, but which has meaningfully reduced our future annual facilities cost. These and other restructuring efforts have contributed to an overall decline in our operating expenses. During the year ended December 31, 2013, our total operating expenses declined $18.0 million, compared to 2012.

Summary of Results

Consolidated results of operations were as follows (dollars in thousands):

	2013	2012	2011	2013-2012 Change	% Change	2012-2011 Change	% Change
Total revenue	$206,196	$258,842	$335,686	$(52,646)	(20)%	$(76,844)	(23)%
Cost of revenue	79,091	103,731	126,637	(24,640)	(24)%	(22,906)	(18)%
Impairment of deferred costs	—	—	19,962	—	— %	(19,962)	(100)%
Gross profit	127,105	155,111	189,087	(28,006)	(18)%	(33,976)	(18)%
Gross margin	62 %	60 %	56 %	2 %		4 %	
Sale of patents and other technology assets, net of costs	—	116,353	—	(116,353)	(100)%	116,353	100 %
Total operating expenses	197,913	215,901	226,697	(17,988)	(8)%	(10,796)	(5)%
Operating income (loss)	$(70,808)	$55,563	$(37,610)	$(126,371)	(227)%	$93,173	248 %

2013 compared with 2012

Revenue decreased by $52.6 million, or 20%. The reduction in revenue resulted from a decline of $19.1 million in our Mobile Entertainment segment, a decline of $17.2 million in our Games segment, and a decline of $16.3 million in our RealPlayer Group segment, due to the factors described above. Gross margin increased to 62% from 60%, primarily as a result of lower personnel and related costs that resulted from our ongoing expense alignment efforts. Operating expenses decreased by $18.0 million primarily due to reductions in personnel and related costs that resulted from our ongoing expense alignment efforts.

2012 compared with 2011

Revenue decreased by $76.8 million, or 23%. The reduction in revenue resulted from a decline of $35.1 million in our Mobile Entertainment segment, a decline of $30.8 million in our Games segment, and a decline of $10.9 million in our RealPlayer Group segment, due to the factors described above. Cost of revenue decreased by $22.9 million compared with the year earlier period due primarily to the decline in revenue, partially offset by a decrease of $5.5 million in royalty expense in 2011, due to a change in estimates of our accrued royalties. Operating expenses improved by $10.8 million due primarily to reduced personnel and related costs of $20.3 million and reduced marketing expenses of $6.7 million, due to our ongoing work to align our operating expenses with our revenue profile. These declines were partially offset by an increase of $10.5 million in restructuring costs and lease exit and related charges, in addition to a benefit in 2011 of $6.4 million related to an insurance reimbursement for previously settled litigation that reduced expenses during the quarter ended March 31, 2011.

Segment Results

RealPlayer Group

RealPlayer Group segment results of operations were as follows (dollars in thousands):

	2013	2012	2011	2013-2012 Change	% Change	2012-2011 Change	% Change
Total revenue	$75,206	$91,469	$102,378	$(16,263)	(18)%	$(10,909)	(11)%
Cost of revenue	16,220	21,544	21,534	(5,324)	(25)%	10	— %
Impairment of deferred costs	—	—	633	—	— %	(633)	(100)%

Gross profit	58,986		69,925		80,211		(10,939	)	(16	)%	(10,286	)	(13	)%
Gross margin	78	%	76	%	78	%	2	%			(2	)%		
Total operating expenses	60,484		55,223		59,829		5,261		10	%	(4,606	)	(8	)%
Operating income (loss)	$(1,498	)	$14,702		$20,382		$(16,200	)	(110	)%	$(5,680	)	(28	)%

2013 compared with 2012

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Total RealPlayer Group revenue decreased by $16.3 million, or 18%. This decrease was primarily a result of lower subscriptions revenue of $11.8 million due to fewer subscribers, primarily attributable to our SuperPass product. Gross margin increased by 2 percentage points, due primarily to a higher proportion of lower margin revenue in the prior year. Operating expenses increased by $5.3 million. Personnel and related costs increased $5.2 million, primarily due to investment in our new RealPlayer Cloud service.

2012 compared with 2011

Revenue decreased by $10.9 million, or 11%. This decrease was due primarily to a decline in subscriptions revenue, mainly from our SuperPass product, of $8.9 million. Operating expenses decreased by $4.6 million, due primarily to reductions in personnel and related costs of $7.6 million, which resulted from our ongoing work to align our operating expenses with our revenue profile. Partially offsetting these decreases was increased expense of $1.3 million related to the expense in 2012 for the final settlement of the Washington State Attorney General's office matter, as disclosed in the 2012 10K, in addition to increased marketing spend of $0.8 million.

Mobile Entertainment

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

	2013	2012	2011	2013-2012 Change	% Change	2012-2011 Change	% Change
Total revenue	$81,181	$100,318	$135,452	$(19,137)	(19)%	$(35,134)	(26)%
Cost of revenue	47,608	57,670	74,524	(10,062)	(17)%	(16,854)	(23)%
Impairment of deferred costs	—	—	19,329	—	—%	(19,329)	(100)%
Gross profit	33,573	42,648	41,599	(9,075)	(21)%	1,049	3%
Gross margin	41%	43%	31%	(2)%		12%	
Total operating expenses	35,839	52,614	61,921	(16,775)	(32)%	(9,307)	(15)%
Operating income (loss)	$(2,266)	$(9,966)	$(20,322)	$7,700	77%	$10,356	51%

2013 compared with 2012

In the quarter ended September 30, 2013, we acquired Muzicall, a ringback tone company based in London, for total cash consideration of $6.7 million. This acquisition is intended to accelerate our growth initiatives within the Mobile Entertainment segment.

Mobile Entertainment revenue decreased by $19.1 million, or 19%. This decrease was primarily due to reduced revenue from our SaaS offerings of $16.0 million, resulting from $17.0 million of lost revenue upon the termination of certain SaaS contracts over the last six quarters. Slightly offsetting this decrease was an increase in ringback tones revenue of $2.1 million, resulting from our purchase of Muzicall.

Gross margin declined by 2 percentage points, due primarily to a higher proportion of lower margin revenue, such as music on demand, in the current year. Operating expenses declined by $16.8 million primarily due to reductions in personnel and related costs of $17.2 million that resulted in part from the termination of certain SaaS contracts mentioned above, as well as from our ongoing expense alignment efforts. Partially offsetting these declines was an increase in total operating expense of $2.5 million as a result of the acquisition of Muzicall in 2013.

2012 compared with 2011

Total Mobile Entertainment revenue decreased by $35.1 million, or 26%. This decrease was primarily due to reduced revenue from our SaaS offerings of $29.1 million. The decline in SaaS revenue was due primarily to a $24.3 million decline in our ringback tone, intercarrier messaging and video on demand revenues due to both fewer subscribers and lower contract prices. In addition, revenue from systems integration declined $4.0 million.

Gross margin increased primarily due to the impairments of deferred costs of $19.3 million within the year ended December 31, 2011, related to certain contracts with carrier customers for which the total estimated costs exceeded the total estimated revenues expected to be recognized. Operating expenses decreased by $9.3 million primarily due to reductions in personnel and related costs that resulted from our restructuring efforts.

Games

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

	2013	2012	2011	2013-2012 Change	% Change	2012-2011 Change	% Change
Total revenue	$49,809	$67,055	$97,856	$(17,246)	(26)%	$(30,801)	(31)%
Cost of revenue	13,359	21,828	30,835	(8,469)	(39)%	(9,007)	(29)%
Gross profit	36,450	45,227	67,021	(8,777)	(19)%	(21,794)	(33)%
Gross margin	73%	67%	68%	6%		(1)%	
Total operating expenses	47,177	51,890	62,595	(4,713)	(9)%	(10,705)	(17)%
Operating income (loss)	$(10,727)	$(6,663)	$4,426	$(4,064)	(61)%	$(11,089)	(251)%

2013 compared with 2012

In the quarter ended June 30, 2013, we acquired Slingo, a social casino games company based in the U.S., for total cash consideration of $15.6 million. This acquisition is intended to enhance our footprint in the social casino games arena. Associated with this will be incremental costs for investment in new products over the next year, which will directly impact our operating income (loss) before taxes.

Games revenue decreased by $17.2 million, or 26%. Lower revenue from license sales, subscription products, and advertising contributed $8.3 million, $5.8 million, and $4.3 million, respectively, to the decline during the period. Slightly offsetting these decreases was an increase of $2.1 million in games revenue as a result of the acquisition of Slingo.

Cost of revenue decreased by $8.5 million, or 39%. The decrease was due to the decrease in partner royalties expense, which has a direct correlation with the decrease in Games revenue. Gross margin increased due to both lower margin projects that occurred in the prior year periods, in addition to lower personnel and related costs in the current period resulting from our ongoing expense alignment efforts.

Operating expenses decreased by $4.7 million, or 9%. The decrease was primarily due to reductions in personnel and related costs of $5.5 million, and reductions in marketing expense of $1.9 million. Partially offsetting these declines was an increase in total operating expense of $3.9 million as a result of the acquisition and investment in new products related to Slingo.

2012 compared with 2011

Games revenue decreased by $30.8 million, or 31%. Lower revenue from license sales and our subscription products contributed $13.9 million and $10.2 million, respectively, to the decline during the period. The decrease in license revenue included a decrease in the number of games sold through our games syndication services of $4.9 million, as well as lower sales of mobile games of $4.8 million. Lower subscription revenue was a result of fewer subscribers compared with the year-earlier period. Further contributing to the decline was lower revenue from advertising of $4.9 million.

Cost of revenue decreased by $9.0 million, or 29%. This decrease was primarily due to the decrease in partner royalties expense, which has a direct correlation with the decrease in Games revenue.

Operating expenses decreased by $10.7 million, or 17%. The decrease was primarily due to reductions in marketing expenses of $7.2 million, primarily related to our non-social games, in addition to reductions in personnel and related costs of $2.4 million.

Corporate

We allocate certain corporate expenses which are directly attributable to supporting the business to our reportable segments, rather than retaining those expenses in our corporate segment. These allocated corporate expenses include but are not limited to a portion of finance, legal, human resources and headquarters facilities. Remaining expenses, which are not directly attributable to supporting the business, are retained in aggregate in our corporate segment. All restructuring, lease exit and related charges, and, for 2013, the loss on litigation settlements, are included in the corporate segment.

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

	2013	2012	2011	2013-2012 Change	% Change	2012-2011 Change	% Change
Cost of revenue	$1,904	$2,689	$(256)	$(785)	(29)%	$2,945	NM

Gain on sale of patents and other technology assets, net of costs	—		116,353	—		(116,353	)	(100	)%	116,353	100	%
Total operating expenses	54,413		56,174	42,352		(1,761	)	(3	)%	13,822	33	%
Operating income (loss)	$(56,317	)	$57,490	$(42,096	)	$(113,807	)	(198	)%	$99,586	237	%

2013 compared with 2012

The 2012 gain from the sale of patents and other technology assets to Intel Corporation of $116.4 million reflects the cash proceeds of $120.0 million in the second quarter, less $3.6 million of direct transaction expenses incurred during the first and second quarters.

Operating expenses decreased by $1.8 million, or 3%. The decrease was primarily due to reductions in personnel and related costs of $3.0 million, in addition to reduced restructuring charges of $9.7 million. Partially offsetting these decreases were the 2013 litigation settlements of $11.5 million.

2012 compared with 2011

Cost of revenue increased by $2.9 million. The increase was due primarily to a reduction in expense in 2011 from a change in estimates of our accrued royalties on our historical music business of approximately $3.6 million.

The 2012 gain from the sale of patents and other technology assets to Intel Corporation of $116.4 million reflects the cash proceeds of $120.0 million in the second quarter, less $3.6 million of direct transaction expenses incurred during the first and second quarters.

Operating expenses increased by $13.8 million, or 33%. The increase compared with 2011 was primarily due to increased restructuring costs and lease exit and related charges totaling $10.5 million, and to the impact of a benefit in 2011 of $6.4 million related to an insurance reimbursement for previously settled litigation that reduced expense in 2011. These increases were partially offset by reductions in personnel and related costs of $2.1 million in 2012, which resulted from our ongoing work to align our operating expenses with our revenue profile.

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, and restructuring charges. Operating expenses were as follows (dollars in thousands):

	2013	2012	2011	2013-2012 Change	% Change	2012-2011 Change	% Change
Research and development	$60,880	$63,194	$70,212	$(2,314)	(4)%	$(7,018)	(10)%
Sales and marketing	80,011	90,301	111,300	(10,290)	(11)%	(20,999)	(19)%
General and administrative	36,643	43,891	37,181	(7,248)	(17)%	6,710	18%
Restructuring and other charges	5,765	15,225	8,650	(9,460)	(62)%	6,575	76%
Lease exit and related charges (gains)	3,089	3,290	(646)	(201)	(6)%	3,936	609%
Loss on litigation settlements	11,525	—	—	11,525	100%	—	—%
Total consolidated operating expenses	$197,913	$215,901	$226,697	$(17,988)	(8)%	$(10,796)	(5)%

Research and development expenses decreased by $2.3 million, or 4%, in the year-ended 2013, compared with 2012. While we continue to invest in new products, we saw an overall decrease in personnel and related costs of $3.6 million, resulting from our ongoing expense alignment efforts.

Research and development expenses, including non-cash stock-based compensation, decreased by $7.0 million, or 10%, in the year-ended 2012, compared with 2011. This decrease was primarily due to a decrease in personnel and related costs of $6.1 million.

Sales and marketing expenses, including non-cash stock-based compensation, decreased by $10.3 million, or 11%, in the year-ended 2013, compared with 2012. The decrease was due primarily to a decrease in personnel and related costs of $7.8 million resulting from our ongoing expense alignment efforts.

Sales and marketing expenses, including non-cash stock-based compensation, decreased by $21.0 million, or 19%, in the year-ended 2012, compared with 2011. The decrease was due primarily to a decrease in personnel and related costs of $13.4 million. Further contributing to the decline in sales and marketing costs was reductions in marketing expenses of $7.1 million, primarily related to our non-social games.

General and administrative expenses, including non-cash stock-based compensation, decreased by $7.2 million, or 17%, in the year-ended 2013, compared with 2012. Contributing to the decrease for the period was a decrease in personnel and

related costs of $6.0 million, and to $1.3 million related to the expense in 2012 for the final settlement of the Washington State Attorney General's office matter, as disclosed in the 2012 10-K.

General and administrative expenses, including non-cash stock-based compensation, increased by $6.7 million, or 18%, in the year-ended 2012, compared with 2011. This increase was primarily due to the impact of a benefit in the first quarter of 2011 of $6.4 million related to an insurance reimbursement for previously settled litigation that reduced expense in the prior year.

Restructuring and other charges in 2013, 2012 and 2011 consist of costs associated with the ongoing reorganization of our business operations and primarily relate to severance costs due to workforce reductions. For additional details on these charges see Note 10, Restructuring Charges.

As a result of the reduction in use of RealNetworks' office space, primarily in our former corporate headquarters in Seattle, Washington, and certain other locations, losses have been recognized representing rent and contractual operating expenses over the remaining life of the leases, and related write-downs of leasehold improvements to their estimated fair value. For additional details on these charges see Note 11, Lease Exit and Related Charges.

Loss on litigation settlements recorded during 2013 relates to settlement agreements executed in October 2013, for which we paid in full an aggregate amount of $11.5 million during the fourth quarter of 2013, as discussed in Note 16, Commitments and Contingencies.

Other Income (Expenses)

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

	2013	Change	2012	Change	2011
Interest income, net	$1,133	(5)%	$1,192	(23)%	$1,552
Gain (loss) on sale of equity investments,net	21,389	n/a	5,072	n/a	—
Equity in net loss of Rhapsody	(6,268)	10%	(5,709)	(28)%	(7,898)
Other income (expense), net	467	(62)%	1,241	(362)%	(473)
Total other income (expense), net	$16,721	831%	$1,796	(126)%	$(6,819)

As described further in Note 4, Rhapsody Joint Venture, we account for our investment in Rhapsody under the equity method of accounting. The net carrying value of our investment in Rhapsody is not necessarily indicative of the underlying fair value of our investment.

The increase in Other income (expense), net, of $14.9 million for 2013, was due primarily to the $21.4 million net Gain (loss) on sale of equity investments in 2013. This net gain was due to the sale of all our remaining shares of common stock in LoEn Entertainment, Inc. For additional details on this transaction see Note 5, Fair Value Measurements.

The increase in Other income (expense), net, of $8.6 million for 2012, was due primarily to the $5.1 million net Gain (loss) on sale of equity investments in 2012. This net gain was driven by the sale of a portion of our investment in LoEn Entertainment, Inc. and a gain on the sale of our Film.com assets, totaling $5.3 million. An additional increase was due to non-cash gains for 2012 due to the release of a $2.0 million cumulative foreign exchange translation gain from accumulated other comprehensive loss on the balance sheet related to the liquidations of investments in certain of our foreign entities.

Income Taxes

During the years ended December 31, 2013, 2012, and 2011, we recognized income tax expense of $4.9 million, $12.5 million and an income tax benefit of $17.3 million, respectively, related to U.S. and foreign income taxes.

The tax expense in the year ended December 31, 2013 was largely the result of valuation allowances we recorded in certain foreign jurisdictions. The tax expense for the year ended December 31, 2012 was largely the result of the sale of certain patent assets and other technology assets to Intel Corporation for gross cash consideration of $120 million in 2012. The tax benefit in the year ended December 31, 2011 was largely the result of a release in our valuation allowance relating to significant known income expected in 2012 due to the then-pending patent sale to Intel.

We assess the likelihood that our deferred tax assets will be recovered based upon our consideration of many factors, including the current economic climate, our expectations of future taxable income, our ability to project such income, and the appreciation of our investments and other assets. We maintain a partial valuation allowance of $128.9 million for our deferred tax assets due to uncertainty regarding their realization as of December 31, 2013. The net increase in the valuation allowance since December 31, 2012 of $38.1 million was the result of a $30.6 million increase in current

year deferred tax assets for which the Company maintains a valuation allowance on, and a $7.5 million increase due to valuation allowances placed on certain non-U.S. deferred tax assets because it is not more likely than not that the deferred tax asset will be realized.

We generate income in a number of foreign jurisdictions, some of which have higher tax rates and some of which have lower tax rates relative to the U.S. federal statutory rate. Changes to the blend of income between jurisdictions with higher or lower effective tax rates than the U.S. federal statutory rate could affect our effective tax rate. For the year ended December 31, 2013, decreases in tax expense from income generated in foreign jurisdictions with lower tax rates in comparison to the U.S. federal statutory rate were 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.

As of December 31, 2013 and 2012, we had $4.5 million and $4.0 million of unrecognized tax benefits, respectively. The increase in unrecognized tax benefits is due to federal research & development tax credit carryforward risks. The total amount of unrecognized tax benefits that would affect our effective tax rate if recognized is $0.4 million as of December 31, 2013 and $0.4 million as of December 31, 2012. We currently anticipate the expiration of the statute of limitations within the next twelve months that may decrease our total unrecognized tax benefit by an amount up to $0.9 million.

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 2008 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.

Geographic Revenue

Revenue by geographic region was as follows (dollars in thousands):

	2013	2012	2011	2013-2012 Change	% Change	2012-2011 Change	% Change
United States	$90,250	$117,844	$162,720	$(27,594)	(23)%	$(44,876)	(28)%
Europe	38,155	56,473	74,602	(18,318)	(32)%	(18,129)	(24)%
Korea	46,601	40,467	44,261	6,134	15		