

REALNETWORKS INC  
Form 10-K/A  
April 30, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K/A

(Amendment No.1)  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2017

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 001-37745

RealNetworks, Inc.

(Exact name of registrant as specified in its charter)

Washington 91-1628146

(State of incorporation) (I.R.S. Employer Identification Number)

1501 First Avenue South, Suite 600 98134  
Seattle, Washington

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

(206) 674-2700

Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

Indicate by check mark 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.

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," "non-accelerated filer" and

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“smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer” Accelerated filer  x  
Non-accelerated filer ” (Do not check if a smaller reporting company) Smaller reporting company”   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the common stock held by non-affiliates of the registrant was \$104 million on June 30, 2017, 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. In the case of 10% or greater shareholders, we have not deemed such shareholders to be affiliates unless there are facts and circumstances which would indicate that such shareholders exercise any control over our company. 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 March 31, 2018 was 37,563,888.

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EXPLANATORY NOTE

RealNetworks, Inc. is filing this Amendment No. 1 to our Form 10-K for the fiscal year ended December 31, 2017, originally filed with the Securities and Exchange Commission on February 27, 2018, for the purpose of providing the information required by Part III that we intended to be incorporated by reference from our proxy statement relating to our 2018 annual meeting of shareholders. Our 2018 proxy statement, however, will not be filed within the requisite time period allowing such incorporation by reference.

This Amendment No. 1 speaks as of the original filing date of the Form 10-K and reflects only the changes to the cover page, Items 10, 11, 12, 13 and 14 of Part III and Item 15 of Part IV. No other information included in the Form 10-K, including the other information set forth in Part I and Part II, has been modified or updated in any way.

We have also included as exhibits the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002. Because no financial statements are contained within this Amendment, we are not including certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

TABLE OF CONTENTS

	Page
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	<u>4</u>
Item 11. Executive Compensation	<u>10</u>
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	<u>36</u>
Item 13. Certain Relationships and Related Transactions, and Director Independence	<u>37</u>
Item 14. Principal Accounting Fees and Services	<u>39</u>
PART IV	
Item 15. Exhibits, Financial Statement Schedules	<u>39</u>
Signatures	<u>41</u>
Exhibit Index	<u>42</u>

## PART III.

## Item 10. Directors, Executive Officers and Corporate Governance

## Information Concerning Our Directors

The name, age and certain background information regarding each member of our Board of Directors is set forth below as of April 1, 2018. There are no family relationships among our directors or executive officers. In addition to the information presented below regarding each director's specific experience, qualifications, attributes and skills that led the Board of Directors to conclude that he or she is qualified to serve as a director, each of our directors has demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment to RealNetworks and our Board.

Name	Age	Position(s)	Class	Director Since
Robert Glaser	56	Chairman of the Board of Directors	3	1994
Bruce A. Jaffe	53	Director (1)	1	2015
Christopher R. Jones	48	Director (1)	3	2016
Dawn G. Lepore	64	Director (2, 3*)	1	2013
Janice Roberts	62	Director (2*, 3)	2	2010
Michael B. Slade	60	Director	2	2011
Dominique Trempont	63	Lead Independent Director (1*, 2)	1	2010

\* Denotes chair of such committee

(1) Member of the Audit Committee

(2) Member of Compensation Committee

(3) Member of Nominating & Corporate Governance Committee

Biographical Information

Specific Experience,  
Qualifications  
and Skills Considered  
by our Board

Class 1 Directors

Christopher R. Jones	<p>Mr. Jones serves as Engineering Director for Microsoft Corporation, leading the engineering team for Microsoft Healthcare NExT, an incubator which aims to accelerate healthcare innovation through artificial intelligence and cloud computing, a position he has held since October 2015. Previously, from February 2000 to October 2015, Mr. Jones served as a Corporate Vice President in various business divisions at Microsoft, including OneDrive &amp; SharePoint, Windows Services, and Windows, where he led the engineering teams for several Microsoft products, such as OneDrive and OneDrive for Business, SharePoint Online and SharePoint Server, Outlook.com and other consumer services, and Windows XP. Mr. Jones joined Microsoft in August 1991, and held several program management and engineering roles prior to being named a Corporate Vice President. Mr. Jones currently serves on the Board of Trustees of The Bush School. Mr. Jones holds a B.S. degree in mathematical and computational sciences from Stanford University.</p>	<p>Senior leadership experience</p> <p>Extensive experience in software engineering and development</p>
Dawn G. Lepore	<p>Ms. Lepore served as interim Chief Executive Officer of Prosper Marketplace, Inc., a privately held peer-to-peer lending marketplace, from March 2012 to January 2013. She served as Chief Executive Officer and Chairman of the Board of drugstore.com, inc., a leading online provider of health, beauty, vision, and pharmacy solutions, from October 2004 until its sale to Walgreen Co. in June 2011. Prior to joining drugstore.com, Ms. Lepore spent 21 years at the Charles Schwab Corporation and Charles Schwab &amp; Co, Inc., a financial holding company, holding several leadership positions, most notably Vice Chairman of Technology, Active Trader, Operations, Business Strategy, and Administration, and Chief Information Officer. She also served as a member of Schwab's executive committee and as a trustee of SchwabFunds. Ms. Lepore has served on the board of directors of Quotient Technology Inc. since February 2012. She previously served on the board of directors of AOL Inc. from October 2012 to its sale to Verizon Communications Inc. in July 2015, The TJX Companies, Inc. from June 2013 to June 2014, eBay Inc. from December 1999 to January 2013, and The New York Times Company from April 2008 to June 2011. Ms. Lepore holds a B.A. degree from Smith College.</p>	<p>Senior executive leadership and business strategy experience</p> <p>Executive-level experience with technology companies</p> <p>Significant experience, expertise and background with regard to business, accounting and financial matters</p> <p>Experience through service as a director of public and private companies</p>

Biographical Information

Specific Experience,  
Qualifications  
and Skills Considered  
by our Board

Mr. Trempont has served, since February 2011, as a director of Daily Mail and General Trust plc, a producer of media content, information analytics and events for businesses and consumers. Mr. Trempont has also served, since July 2008, as a director of Energy Recovery, Inc., a manufacturer of energy efficient recovery devices that enable the economic transformation of sea water into drinkable water and recover the energy contained in industrial flows in oil, gas and fracking applications; he serves as Chair of the Audit Committee of Energy Recovery, Inc. From 2005 to November 2011, Mr. Trempont served as a director of Finisar Corporation, a company that develops and markets high speed data communication systems and software for networking and storage. From 2006 to April 2010, Mr. Trempont served as a director of 3Com Corporation, a network management company that was acquired by Hewlett Packard in April 2010; he served as Chair of the Audit Committee of 3Com. From 2003 to 2005, Mr. Trempont was CEO-in-Residence at Battery Ventures, a venture capital firm. Prior to joining Battery Ventures, Mr. Trempont was Chairman, President and Chief Executive Officer of Kanisa, Inc., a cloud service company focused on enterprise self-service applications, from 1999 to 2002. Mr. Trempont was President and CEO of Gemplus Corporation, a smart card and mobile apps company, from 1997 to 1999. Prior to Gemplus, Mr. Trempont served as Chief Financial Officer and head of Operations at NeXT Software. Mr. Trempont began his career at Raychem Corporation, a materials science and engineering company focused on telecommunications, electronics, automotive and other industries. Mr. Trempont currently serves as a director of privately held on24, Inc., a cloud provider of marketing automation solutions. Mr. Trempont earned an undergraduate degree in Economics from College St. Louis (Belgium), a B.A. with high honors in Business Administration and Software (LSM) from the University of Louvain (Belgium) and a master's degree in Business Administration from INSEAD (France/Singapore).

Senior leadership  
experience

Management advisory  
experience

Global financial and  
M&A expertise

Executive-level  
experience with  
technology companies,  
with particular expertise  
in software companies,  
and business-to-business  
and business-to-consumer  
sales models

Experience through  
service as a director of  
global public and private  
companies

Dominique  
Trempont

Biographical Information

Specific Experience, Qualifications and Skills Considered by our Board

Class 2  
Directors

Janice Roberts	<p>Ms. Roberts serves as a Partner on the investment team of Benhamou Global Ventures, an early-stage venture capital firm based in Silicon Valley. As a Partner, she advises a portfolio of private companies. From 2000 to 2013, Ms. Roberts served as Managing Director of Mayfield Fund where she continued as a venture advisor until 2014. Ms. Roberts' current areas of investment interest include enterprise information technology, SaaS-based productivity and analytics, mobile infrastructure and applications and the Internet of Things. From 1992 to 2000, Ms. Roberts was employed by 3Com Corporation, a networking equipment company that was acquired by Hewlett Packard in April 2010, where she held various executive positions, most recently serving as President of 3Com Ventures and Senior Vice President Global Marketing and Business Development. Ms. Roberts managed a number of the new business initiatives at 3Com, including its Palm Computing subsidiary. Previously, Ms. Roberts was Managing Director and President of BICC Data Networks Ltd., a networking equipment company that was acquired by 3Com in 1992. Ms. Roberts' early career was based in Europe and included various technology-related marketing and general management positions. Ms. Roberts serves on the boards of publicly traded Zebra Technologies, an industry leader in enterprise asset intelligence providing solutions and services for real-time visibility of operations, since October 2013, and Zynga, Inc., a leading developer of popular social and mobile games, since February 2017. Most recently, she served as a director of publicly traded ARM Holdings, Plc, a leading semiconductor IP company for mobile and consumer devices, from June 2011 until its acquisition by SoftBank Group Corporation in September 2016. Ms. Roberts serves on the board of directors of GBx Global, an organization supporting entrepreneurship and technology businesses spanning the U.K. and U.S. She also sits on the advisory board of Illuminate Ventures. Ms. Roberts holds a Bachelor of Commerce degree (Honours) from the University of Birmingham in the United Kingdom.</p>	<p>Senior leadership experience, in the U.S. and Europe</p> <p>Management advisory experience</p> <p>Executive-level experience with global technology companies, including companies focused on networking, mobile and wireless communications technologies, consumer and enterprise</p> <p>Experience investing in and advising early- and later-stage companies</p> <p>Experience through service as a director of public, private and nonprofit companies in the U.S., Europe and Asia, including service on audit, compensation, and nominating and governance committees of the board</p>
Michael B. Slade	<p>Mr. Slade is a co-founder of Second Avenue Partners, a provider of management, strategy and capital for early stage companies, where he has served as a partner since 2000. From 2005 to 2006, Mr. Slade served as a strategic advisor for RealNetworks. From 2002 to May 2007, Mr. Slade served as a director of aQuantive, Inc., a publicly traded digital marketing service and technology company that was acquired by Microsoft Corporation in May 2007. From 1998 to 2004, Mr. Slade served as a consultant and member of the executive team at Apple Inc. From 1993 to 1998, Mr. Slade</p>	<p>Senior executive leadership and business strategy experience</p> <p>Management advisory experience</p>



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was chairman of the board of directors and chief executive officer of Starwave Corp., a Paul Allen-funded startup that was sold to The Walt Disney Corp. From 1983 to 1992, Mr. Slade held various executive and leadership positions with technology companies including Microsoft Corporation, Central Point Software, NeXT Computer, Inc. and Asymetrix Corp. Mr. Slade holds a B.A. in Economics from Colorado College and an M.B.A. from the Stanford University Graduate School of Business.

Executive-level experience with technology companies  
Experience through service as a director of public and private companies

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Biographical Information

Specific Experience,  
Qualifications  
and Skills Considered  
by our Board

Class 3  
Directors

Bruce A. Jaffe	<p>Mr. Jaffe serves as Chief Executive Officer of Donuts, Inc., an early stage, privately held operator of top-level domain names, since January 1, 2017. He is also a consultant and investor with Three Point Group, LLC, which he founded in 2008 and which focuses on early stage and growth technology companies. Mr. Jaffe served as Chief Financial Officer and EVP Corporate Development of Glam Media, a privately held media company, from May 2010 to December 2011. From June 1995 through February 2008, Mr. Jaffe held various positions at Microsoft Corporation, most recently serving as its Corporate Vice President, Corporate Development, where he managed M&amp;A and strategic transactions. Mr. Jaffe serves as a director of several privately held companies, including Donuts, Inc. Mr. Jaffe holds a B.S. degree from UC Berkeley and an M.B.A. from the Stanford University Graduate School of Business.</p>	<p>Senior executive leadership and business strategy experience</p> <p>Management advisory and finance experience</p> <p>Experience investing in and advising early stage companies</p> <p>Experience through service as a director of private companies</p>
Robert Glaser	<p>Mr. Glaser, founder of RealNetworks, currently serves as our Chief Executive Officer. He has served as Chairman of the Board of Directors of RealNetworks since its inception in 1994 and served as Chief Executive Officer of RealNetworks from 1994 through January 2010, returning as interim CEO in July of 2012 and becoming permanent CEO in July 2014. Mr. Glaser has served as a venture partner at Accel Partners, a venture capital firm, since May 2010. Mr. Glaser's professional experience also includes ten years of employment with Microsoft Corporation where he focused on the development of new businesses related to the convergence of the computer, consumer electronics and media industries. Mr. Glaser holds a B.A. and an M.A. in Economics and a B.S. in Computer Science from Yale University.</p>	<p>Experience with technology companies through service as a founder, investor, executive and director</p> <p>Extensive historical knowledge of RealNetworks and the industries in which it operates</p> <p>Management advisory experience</p>

Information Concerning Our Executive Officers

Background information about each of our current executive officers as of April 1, 2018 who does not also serve on our Board of Directors is set forth below:

Name	Age	Position(s)
Cary L. Baker	42	Senior Vice President, Chief Financial Officer and Treasurer
Michael M. Parham	54	Senior Vice President, General Counsel and Corporate Secretary
Massimiliano Pellegrini	50	President, RealNetworks

Cary Baker has served as our Senior Vice President, Chief Financial Officer and Treasurer since May 5, 2017. Mr. Baker most recently served as Chief Financial Officer of HEAT Software, Inc., a global provider of cloud-based IT service management and endpoint management software solutions, from its formation in February 2015 through April 2017. From March 2014 to October 2016, Mr. Baker also served as Chief Financial Officer of NetMotion Software, a provider of mobile security and performance management software solutions, and an affiliate of HEAT Software. From May 2010 to November 2013, he held key financial leadership roles at Clearwire Corporation, including most recently as Vice President Finance from May 2011. Mr. Baker's earlier experience includes financial leadership roles at Boost Mobile and Sprint Corporation. Mr. Baker holds an M.B.A. from the Kelley School of Business at Indiana University and a Bachelor of Science degree in finance from the University of Idaho.

Michael Parham has served as our Senior Vice President, General Counsel and Corporate Secretary since August 2012, and previously had served as Associate General Counsel since January 2004. Prior to joining our legal department in March 2000, Mr. Parham was an attorney with IBM, serving as Regional Counsel for IBM's Midwest region in Chicago. Mr. Parham began his legal career with the law firm of Chapman and Cutler in Chicago. Mr. Parham holds a J.D. from the University of Michigan Law School.

Massimiliano Pellegrini has served as President, RealNetworks since February 2018, and previously served as President, Mobile Services from April 2016 to February 2018, President, Products and Marketing from June 2014 to April 2016, and President of our Mobile Entertainment business from February 2013 to June 2014. Prior to joining RealNetworks, Mr. Pellegrini served as Chairman and Chief Executive Officer of Dada.net S.p.A., a mobile web services company. In 2011, Dada.net was acquired by Buongiorno S.p.A., an international provider of mobile entertainment services. Buongiorno was acquired in July 2012 by NTT Docomo, a Japanese provider of mobile voice, data and multimedia services. Prior to joining Dada.net in May 2000, Mr. Pellegrini was a consultant with Andersen Consulting (now Accenture). Mr. Pellegrini holds a degree in business administration from the University of Florence.

#### Arrangements Regarding Director Selection

Pursuant to the terms of an agreement entered into in September 1997 between RealNetworks and Mr. Glaser, RealNetworks has agreed to use its best efforts to nominate, elect and not remove Mr. Glaser from the Board of Directors so long as Mr. Glaser owns a specified number of shares of our common stock.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities and Exchange Act of 1934, as amended, requires RealNetworks' executive officers, directors, and persons who own more than ten percent of a registered class of RealNetworks' equity securities to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Executive officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish us with copies of all such reports they file. Specific due dates have been established by the SEC, and we are required to disclose any failure to file by those dates.

Based solely on our review of the copies of such reports received by us, and on written representations by our executive officers and directors, we believe that during fiscal 2017, all of our executive officers and directors and all of the persons known to us to own more than ten percent of our common stock, complied with all Section 16(a) filing requirements applicable to them.

#### Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of RealNetworks' employees, officers and directors. RealNetworks' Code of Business Conduct and Ethics is publicly available on our website (<http://investor.realnworks.com> under the caption "Corporate Governance"), or can be obtained without charge by written request to RealNetworks' Corporate Secretary at the address of RealNetworks' principal executive office. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to or waiver from application of the Code of Business Conduct and Ethics that applies to the Chief Executive Officer or the Chief Financial Officer, and any other applicable

accounting and financial employee, by posting such information on our website at <http://investor.realnetworks.com> under the caption "Corporate Governance."

#### Shareholder Nominations and Recommendations for Director Candidates

We have not made any material changes to the procedures by which our shareholders may recommend nominees to our board of directors since we last disclosed the procedures by which shareholders may nominate director candidates under the caption "Shareholder Nominations and Recommendations for Director Candidates" in our proxy statement for the 2017 annual meeting of RealNetworks shareholders filed with the SEC on August 8, 2017.

#### Audit Committee of the Board

We have a standing Audit Committee of the Board of Directors comprised of Messrs. Trempont, Jaffe and Jones. The Audit Committee provides oversight of our accounting and financial reporting, processes and financial statement audits, reviews RealNetworks' internal accounting procedures and consults with and reviews the services provided by its independent auditors. All of the members of our Audit Committee are financially literate pursuant to Nasdaq rules, and our Board has designated Mr. Trempont as the Audit Committee Financial Expert, as defined by the SEC and applicable listing standards. Applying the rules of the Nasdaq Stock Market and the SEC, the Board has determined that Mr. Trempont is independent.

#### Item 11. Executive Compensation

##### COMPENSATION DISCUSSION AND ANALYSIS

This compensation discussion and analysis describes the principles underlying our executive compensation program and discusses how those principles affected our policies and decisions regarding the compensation of our named executive officers.

##### EXECUTIVE SUMMARY FOR 2017

**Overview.** 2017 was a transformative year for RealNetworks, and we ended the year having changed the profile of our businesses and set up the company for growth and profitability. Over the past several years, management has rigorously evaluated the company's legacy products and services, as well as the technologies under development, focusing on achieving meaningful growth and profitability in the near term. During 2017, we began initial market testing on major new products, announced launch partners, and expanded test markets, while also exiting a low-margin business that no longer supported our overall growth and profitability goals. Chairman and Chief Executive Officer, Rob Glaser drove these efforts, together with a strong senior leadership team comprised of Max Pellegrini as President of Mobile Services and Bill Patrizio as President of Consumer Media business, and a corporate leadership team headed by Cary Baker as Chief Financial Officer, new to RealNetworks as of May 2017, and Michael Parham as General Counsel.

Aligning the compensation of our management team with our overall corporate strategy and growth plans, our compensation program is substantially performance-based and aims to encourage the performance necessary to drive growth and profitability for RealNetworks. In general, the compensation provided to our named executive officers in 2017 was consistent with compensation in prior years. Nevertheless, all of the ongoing officers who were employed in 2016 have 2017 total compensation, as reported in the Summary Compensation Table that follows this Compensation Discussion and Analysis, that is lower than the total compensation reported for 2016. Further, the total compensation value provided to all of the named executive officers, again as reported in the Summary Compensation Table, was below the median value provided by peer group companies.

The compensation package for our only executive officer hired in 2017, Mr. Baker, was also in line with our new-hire compensation levels for business executives.

**Financial Results.** Our financial results for 2017 show momentum towards our strategic goals, with significant improvement in gross margin, stabilization of revenue, and a significant decline in operating expenses for the full year. Overall, our financial results reflect our efforts to advance key growth initiatives, enhance profitability, and improve our cost structure. Consolidated revenue decreased by 3% from 2016 when calculated in accordance with U.S. generally accepted accounting principles, or GAAP, which excludes revenue from discontinued operations.

Gross profit increased by 3% over 2016, with

gross margin improving year over year to 71% for fiscal year 2017. Operating expenses declined 18% over the prior year, and our net loss, which includes net loss from continuing operations and net income from discontinued

operations, improved from a loss of \$36.6 million in 2016 to a loss of \$16.3 million in 2017. Adjusted EBITDA, which we define below, improved from a loss of \$23.2 million in 2016 to a loss of \$12.0 million in 2017, primarily as we focused on product launches and partnership opportunities, enhancing the scalability of our go-forward businesses, and improved overall efficiencies.

Our incentive bonus program for 2017, which was primarily based on achievement against target revenue and adjusted EBITDA or divisional contribution margin goals, paid out at a higher level than 2016 based on our 2017 financial results, which established a foundation for future growth and profitability.

Management Team. The executive compensation program is designed to aggressively drive company performance by encouraging successful execution of our growth plan and strategic initiatives. Given the turnover on the management team, however, there continues to be some level of year-over-year variation in executive compensation as different incentives have been required for recruitment and retention purposes.

Our named executive officers for 2017 include the following executive officers:

Robert Glaser Founder, Chairman and Chief Executive Officer

Cary Baker SVP, Chief Financial Officer and Treasurer (effective May 5, 2017)

William President, Consumer Media (Mr. Patrizio left RealNetworks during the first quarter of 2018 to become

Patrizio President and CEO of our affiliate, Rhapsody International, Inc.)

Massimiliano Pellegrini President, Mobile Services (Mr. Pellegrini was named President of RealNetworks, effective February 1, 2018)

Michael Parham SVP, General Counsel and Corporate Secretary

Marjorie Thomas Former SVP, Chief Financial Officer and Treasurer (through May 5, 2017)

Pay for Performance. Our Compensation Committee supports a pay-for-performance philosophy, with the goal of having a substantial part of our executive compensation program consisting of performance-based compensation. This is reflected in our annual performance-based incentive bonus plan, which we also refer to as our Executive Bonus Plan, which provides eligible executives the opportunity to earn a bonus upon achieving pre-established performance objectives, all of which are weighted toward financial and strategic objectives of our businesses. In 2017, all of our named executive officers participated in the Executive Bonus Plan, although Ms. Thomas left RealNetworks during the year so was not eligible for a payout under the plan. Moreover, in a continuing effort to more closely align the interests of executives and shareholders and to conserve cash, the Compensation Committee determined that any payouts under the plan would be paid 50% in cash and 50% in the form of fully vested restricted stock units. The purpose of this structure was to preserve company cash and align the payment from the annual bonus plan with shareholder value.

Further in line with this pay-for-performance philosophy, since 2012, we have relied more on performance-related equity awards, as evidenced by the long-term performance-based option awards granted to Mr. Glaser in 2014, 2015 and 2016. These awards become eligible to vest only upon achievement of significant total shareholder return goals (subject to continued service with us). The performance-based option granted to Mr. Glaser in 2014 expired in 2017, unearned. In 2017, due to the stock price performance requirement inherent in stock options and the difficulty in determining appropriate total shareholder return goals, the Compensation Committee utilized a time-based option award for Mr. Glaser's 2017 long-term equity award, although the fair value of the 2017 award was lower than the 2016 option award.

Accordingly, actual compensation paid to our named executive officers varies with the company's performance in achieving financial and strategic objectives and the executive's individual performance. We believe that our emphasis on pay for performance provides appropriate incentive to our executives to achieve important business objectives of the company and better aligns the interests of our executives with that of our shareholders.

Please note that we define "adjusted EBITDA" as GAAP net income (loss) excluding the impact of the following: interest income (loss), income tax expense, gain on investments, equity in net loss of Rhapsody, depreciation and amortization,



acquisitions-related intangible asset amortization, stock-based compensation, restructuring and other charges, and lease exit and related charges.

#### 2017 Compensation Highlights.

Highlights relating to our named executive officers, generally:

Of our six named executive officers for 2017, one executive, Mr. Baker, was hired in May 2017, replacing Ms. Thomas as our Chief Financial Officer.

Consistent with our overall focus on stabilizing our businesses and reducing our cost structure, there were no salary increases for our incumbent named executive officers during 2017.

In addition, 2017 incentive bonus payouts for named executive officers, except Mr. Patrizio, were below target levels. Mr. Pellegrini's 2017 incentive bonus was lower than the prior year, while Mr. Parham's 2017 incentive bonus was slightly higher than in the prior year. For Mr. Patrizio, his 2017 incentive bonus was at target, and flat with the prior year (on a prorated basis), in line with the performance of the Consumer Media business.

Payouts of 2017 incentive bonuses were made to the named executive officers 50% in cash and 50% in the form of fully vested RSUs rather than 100% in cash in an effort to conserve the company's cash and to more closely align the interests of executives with those of the company's shareholders.

Total compensation for the incumbent named executive officers was lower than in the prior year.

Highlights relating to our CEO:

Our CEO's total compensation for 2017 was lower than in the prior year. Although his incentive bonus payout was slightly higher than last year, but well below target, his long-term equity award was lower than in 2016. Base salary was consistent year over year and was not high relative to peer companies as it was below the median of the peer group.

Of the total value of equity awards granted to our CEO in 2017, 11% was directly performance based as it related to the 2016 incentive bonus (which has been reported as 2016 compensation); 73% was a long-term equity award granted as a stock option scheduled to vest over four years but naturally performance-based because the option only provides value to the CEO if our stock price increases above the closing price on the grant date; and the remaining 16%, or \$150,000, was equity in the form of a stock option granted in lieu of cash salary for 2017, thus making a portion of his annual salary considerably more performance-based and less guaranteed than if his salary had been paid solely in cash. Notably, there was no premium added to the option value when replacing the cash salary (i.e., \$150,000 of salary for 2017 was granted as options in 2017). The company does not view the CEO's salary replacement options as long-term incentive compensation, therefore we view 100% of the CEO's equity compensation for 2017 as contingent on achieving a minimum stock price performance threshold.

Our CEO's total direct compensation for 2017 (comprised of salary, 2017 bonus, and equity awards, but excluding the 2016 bonus that was paid in a mix of cash and equity in early 2017) was below the median for peer group CEOs.

#### EXECUTIVE COMPENSATION PROGRAM PHILOSOPHY AND ELEMENTS

The overall objectives of our executive compensation program are to provide compensation at competitive levels in order to recruit and retain talented executives, motivate our executives to achieve our strategic and financial objectives, and provide incentives to help align the interests of our executives with the interests of our shareholders.

Our executive compensation program provides the following three primary elements of compensation:

Base salary. Our named executive officers receive base salary so that we can recognize them for their day-to-day contributions and provide competitive pay that encourages retention and recruitment.

Annual performance-based incentive bonus. We establish a performance-based incentive bonus plan on an annual basis, under which our named executive officers each have an opportunity to receive a bonus, typically paid in cash (although this was not the case for 2017), upon achievement of certain performance objectives derived from

the internal strategic plan we establish for the company each year. The bonuses are intended to motivate our executives to achieve our financial and strategic objectives. These bonuses are not guaranteed.

Bonuses in 2017 were below the target opportunity provided to each eligible named executive officer except Mr. Patrizio. Moreover, 2017 bonuses were paid 50% in cash and 50% in the form of fully vested RSUs, exhibiting discipline from a cash management perspective and a desire to more closely align executives' interests with shareholders.

Although a portion of the 2017 bonus was paid in the form of fully vested RSUs, these equity awards were not considered to be equity compensation from the company's perspective as they were essentially cash-equivalent payments made pursuant to the Executive Bonus Plan. Further, although the grants that relate to the 2016 Executive Bonus Plan are reported in the "2017 Grants of Plan-Based Awards" table that follows this Compensation Discussion and Analysis, the value of those awards is not included in 2017 total compensation for our named executive officers as it was more appropriately included in 2016 total compensation.

Long-term equity compensation. We provide equity-based compensation to our named executive officers to better align their interests with the interests of our shareholders as well as to motivate our officers to enhance the long-term performance of RealNetworks. Equity awards also are an important retention tool for us because the awards typically vest over a multi-year period. Other than our CEO and our newly hired executive, none of our named executive officers received a long-term equity award in 2017; the shareholder-approved option exchange program that was completed in December 2016 served to refresh the equity holdings of our employees worldwide, including our executive officers (except Mr. Glaser, as he was ineligible to participate). Mr. Baker, our most recently hired executive, received a long-term inducement award upon his hire in May 2017. Mr. Glaser's 2017 long-term equity award was an option to purchase 400,000 shares that vests over the four-year period following the grant date, with 25% vesting on the one-year anniversary and 12.5% every six months thereafter, subject to continued service to the company on each vesting date. Mr. Glaser also received an option award in 2017 to acquire 63,675 shares that was granted in lieu of \$150,000 of cash salary; the company does not view this salary replacement option as part of Mr. Glaser's long-term equity compensation.

These elements provide incentives to encourage our executives to appropriately balance their focus between our short-term and long-term strategic goals.

We believe that there are multiple, dynamic factors that contribute to the success of our businesses and the individuals that lead those businesses. Moreover, we recognize that our business and the industry in which we operate are constantly evolving and highly competitive in nature. Our approach to executive compensation, therefore, has been to avoid adopting a strict, formulaic structure and to instead allow for a more nuanced and customized system. Under our executive compensation program, we consider the needs of our businesses and our company as a whole; design various elements of compensation to drive our executives and their teams to meet or exceed company goals and objectives; and take into account competitive practices in order to achieve our recruiting and retention needs.

Consistent with our desire to maintain competitive practices and achieve our recruiting and retention goals, in addition to our three primary elements of compensation, our executive compensation packages also contain certain severance and change in control arrangements; some targeted, one-time bonuses; and retirement and other generally available, broad-based benefits. In general, we provide very limited executive perquisites, and we do not provide our executives with tax gross ups or supplemental retirement plans.

#### EXECUTIVE COMPENSATION DECISION-MAKING PROCESS

The Roles of our Board, Compensation Committee and Chief Executive Officer. Our Compensation Committee's purpose is to discharge the Board of Director's responsibilities relating to the compensation of our executive officers and the adoption of policies that govern our compensation and benefit programs, other than with respect to our chief executive officer's compensation. Our Compensation Committee reviews and recommends the chief executive officer's compensation, which is subject to the approval of the Board. The Board is able to make any adjustments that it may determine are appropriate with respect to our chief executive officer's compensation. The Compensation Committee determines all compensation for our other named executive officers. At the invitation of our Compensation Committee, our chief executive officer provides input regarding the performance and appropriate compensation of the other named executive officers. The Compensation Committee





gives considerable weight to the chief executive officer's assessment of the other named executive officers because of his direct knowledge of each executive's role, performance and contributions. During 2017, our chief executive officer attended all Compensation Committee meetings at the request of the Committee. However, no executive officer was present for the portion of a Compensation Committee meeting during which his or her own compensation was discussed or determined.

**The Role of the Compensation Consultant.** Our Compensation Committee has selected and directly retains the services of Frederic W. Cook & Co., Inc., an independent executive compensation consulting firm. F.W. Cook does not provide any other services to RealNetworks and works with our management only on matters for which the Compensation Committee is responsible. The Compensation Committee has assessed the independence of F.W. Cook pursuant to SEC rules and concluded that no conflict of interest exists that would prevent F.W. Cook from serving as an independent consultant to the Compensation Committee. The Compensation Committee periodically seeks input from F.W. Cook on a range of external market factors, including evolving compensation trends, appropriate peer companies and market survey data. F.W. Cook also provides general observations on our compensation programs, but it does not determine or recommend the amount or form of compensation for our named executive officers. A representative of F.W. Cook attends Compensation Committee meetings from time to time, when requested by the Compensation Committee.

**The Role of Peer Groups and Surveys.** In early 2016, with the oversight of our Compensation Committee, F.W. Cook performed an executive compensation review that included identifying a peer group of companies (the "2016 Peer Group") to be used by us for the purpose of comparing our executive compensation to the market. This 2016 market analysis was used by the Compensation Committee to evaluate 2016 and 2017 executive compensation levels, including long-term equity incentive compensation. The potential impact of our shareholder-approved option exchange program that closed on December 6, 2016 was also considered in the Compensation Committee's approach to long-term equity incentive compensation for the executive team.

The 22 companies in the 2016 Peer Group are publicly traded, U.S.-based software and media content companies, and were selected to reflect our smaller size following organizational changes around that time and, in our view, were competitors of ours for purposes of recruiting executive talent. The companies comprising the 2016 Peer Group are: Angie's List, Inc. eGain Rosetta Stone Inc.

Autobyte Inc. Glu Mobile SeaChange International, Inc.  
Avid Technology, Inc. Harmonic Inc. Spark Networks, Inc.  
Blucora, Inc. Leaf Group (fka Demand Media) TechTarget, Inc.  
Blue Nile, Inc. Limelight Networks, Inc. Travelzoo Inc.  
Brightcove Inc. Marchex, Inc. United Online, Inc.  
Carbonite, Inc. QuinStreet, Inc. XO Group Inc.  
DHI Group

The 2016 Peer Group includes seven of the companies that had been included in our last peer group, which was established in October 2013 and updated in October 2014, however, most of the prior peer group companies were removed due to strategic transactions at those companies that caused them to no longer meet our threshold requirements for the peer group (e.g., becoming privately held, or merging into other organizations) or because those companies moved either above or below a comparable market capitalization, recognizing that RealNetworks' market capitalization has declined over the past several years.

In February 2018, our Compensation Committee engaged F.W. Cook to review our peer group. Considering that four of the companies in the 2016 Peer Group have been acquired or become privately held, and others may no longer be appropriate for comparison based on market capitalization, we expect that a new peer group will be established by our Compensation Committee, upon recommendation of F.W. Cook, for purposes of evaluating our 2018 executive compensation program.

We consider multiple data sources for assessing our compensation practices. Although we consider competitive market data regarding compensation in order to achieve our goals to recruit and retain our executives, we do not attempt to maintain a certain target percentile within a peer group, nor do we rely solely on such market data. Our management and the



Compensation Committee strive to incorporate flexibility into our compensation programs and the assessment process so that we are able to respond to and adjust for the evolving business environment and the value delivered by our named executive officers. In addition to competitive data, we may take into account a variety of other factors, for example, general market conditions, internal equity, an individual's level of responsibilities, as well as an individual's recent or future expected contributions.

**Consideration of Say-on-Pay Vote Results.** We provide our shareholders with the opportunity to cast an annual advisory vote on executive compensation. At our 2017 annual meeting of shareholders, which took place in September 2017, our shareholders approved the compensation of our named executive officers as disclosed in our 2017 proxy statement by a vote of approximately 98% of the votes cast on the proposal. By the time that this vote was conducted, most of the decisions relating to the 2017 compensation of our executive officers had been made. More influential to 2017 compensation decision making was the 85% support of shareholders at the 2016 annual meeting. We highly value the input of our shareholders, and, the Compensation Committee, with input from F.W. Cook, has carefully considered the results of the 2017 say-on-pay vote and has engaged in discussions regarding shareholder outreach efforts. The Compensation Committee will continue to consider the results of the annual say-on-pay vote and specific shareholder input in determining 2018 and future compensation programs for our executive officers.

#### 2017 COMPENSATION

##### Chief Executive Officer Compensation

Upon recommendation of the Compensation Committee as advised by F.W. Cook and after considering the company's compensation strategy, internal factors, competitive factors and applicable regulatory requirements, Mr. Glaser's compensation for 2017 was consistent with the compensation package structure that he has had since returning to the CEO role in July 2014. For 2017, Mr. Glaser's compensation package included (i) an annualized base salary of \$450,000, which was supplemented with \$150,000 worth of stock options; (ii) an annual incentive bonus opportunity equal to 100% of his annual cash base salary, payable upon the achievement of certain performance objectives set by the Board; (iii) a long-term equity award; (iv) severance arrangements as more fully described below; (v) certain perquisites, which for 2017 included facilities-related costs attributable to his personal assistant; and (vi) generally available employee benefits.

The annualized total compensation value targeted by the Compensation Committee for Mr. Glaser, assuming all bonus goals were achieved, was below the median for peer chief executives in F.W. Cook's 2016 executive compensation review, and Mr. Glaser's actual 2017 compensation was also below the median of the total compensation for chief executive officers in the 2016 Peer Group companies. Mr. Glaser's 2017 equity compensation was fully performance based, with a long-term option covering 400,000 shares vesting over the four-year period following grant, and an option award to acquire 63,675 shares that was issued in lieu of \$150,000 of cash salary. In 2017, Mr. Glaser also received a fully vested RSU award that was paid in lieu of cash pursuant to the 2016 incentive bonus plan and, therefore, which we consider to be part of his total 2016 compensation package. The 2017 incentive bonus was paid, 50% in cash and 50% in the form of fully vested RSUs, during the first quarter of 2018.

**Salary Options.** Although Mr. Glaser's intended base salary value was \$600,000, consistent with prior years, the Compensation Committee determined that part of Mr. Glaser's base salary would be provided as a stock option because the Compensation Committee believed that a higher proportion of his compensation should be related to the company's performance. The stock option in lieu of salary for 2017, granted on January 26, 2017, covered 63,675 shares of our common stock with an exercise price equal to \$5.40 per share, which was the closing price of our common stock on the date of grant, and because these were in lieu of a portion of annual 2017 salary, the salary replacement option vested ratably each month over the year until fully vested as of December 31, 2017, subject to Mr. Glaser's continued employment with us through each such vesting date. This salary replacement option was granted pursuant to the 2005 Stock Incentive Plan, or 2005 Plan. In December 2017, the Board determined that, beginning in 2018, the value of the salary replacement option would be decreased by \$75,000 with a reciprocal increase in the cash portion of Mr. Glaser's annual base salary.

**Annual Performance-Based Incentive Bonus.** The Board determined that Mr. Glaser would be eligible to participate in the 2017 Executive Bonus Plan, which is discussed in further detail below. His target bonus opportunity was equal to 100% of his cash base salary, based upon achievement of pre-established company revenue and adjusted EBITDA goals and strategic goals, all of which are set forth in the discussion below. At the time of adoption of the 2017

Executive Bonus Plan, the

14

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Compensation Committee determined that any bonuses approved pursuant to the plan would likely be paid to executives 50% in cash and 50% in the form of fully vested RSUs. Accordingly, during the first quarter of 2018, the Board approved a bonus for Mr. Glaser, pursuant to the 2017 Executive Bonus Plan, equal to \$274,500 or 61% of his annual cash base salary, \$137,250 of which was payable in cash and \$137,250 of which was payable in a number of fully vested RSUs calculated using the closing price of the company's common stock on The Nasdaq Stock Market on February 28, 2018. The incentive bonus payout was higher than in the prior year because, as discussed in more detail below, the 2017 revenue goal, which comprised 25% of the bonus opportunity, was achieved (at 100% attainment) and the strategic goals, which comprised 50% of the bonus opportunity, were deemed achieved in large part (at 72% attainment) by the Board and Compensation Committee.

Long-Term Equity Award. On December 15, 2017, the Board, upon recommendation of the Compensation Committee, granted to Mr. Glaser a long-term option to purchase 400,000 shares of our common stock at an exercise price per share equal to \$3.94, the closing price of our common stock on the grant date. The Compensation Committee viewed this as the "annual" portion of the equity award, with (i) the 2017 salary replacement option and (ii) the fully vested RSUs awarded in lieu of cash as payment of his 2016 incentive bonus, comprising the rest of his total 2017 equity awards. The 2017 long-term option is scheduled to vest over four years, with 25% vesting on the one-year anniversary of the grant date and 12.5% vesting every six months thereafter, subject to Mr. Glaser's continued employment with us through each such vesting date. The option is exercisable for up to seven years from the grant date, unless earlier terminated, and was granted pursuant to the 2005 Plan.

Mr. Glaser's long-term incentive value for 2017, excluding the salary replacement option and 2016 incentive bonus equity, was lower, in terms of dollar value, than in 2016, and was below the peer median. The Board's goal in awarding this long-term equity was to provide strong incentive for Mr. Glaser to strategically drive the company toward its goals of growth and profitability, resulting in an increased stock price and, thus, higher value for shareholders. The Compensation Committee's view is that Mr. Glaser's annual equity was 100% performance-based, since the long-term option requires an increase in stock price from the grant date in order to provide any value to Mr. Glaser.

The following table shows equity awards granted to Mr. Glaser in 2017, 2016 and 2015 based on the grant date fair value:

Annual Equity Awards		Grants Outside the Annual Equity Award Program (1)		
Performance-based Options	Unleashed Options	Total Annual Equity	Current Year Salary Options	Total Equity Awards
2017	\$—	\$ 688,520	\$ 150,000	\$ 838,520
2016	\$852,000	\$—	\$ 150,000	\$ 1,002,000
2015	\$268,000	\$—	\$ 150,000	\$ 418,000

Also in 2017, Mr. Glaser was awarded 20,920 fully vested RSUs as full payment of his 2016 incentive bonus. As described above, the incentive bonus has historically been paid in cash, however, for cash management purposes, the 2016 incentive bonus awards were paid to executives, including Mr. Glaser, 50% in cash and 50% in the form of fully vested RSUs. The 2017 incentive bonuses were also paid 50% in cash and 50% in the form of fully vested RSUs, such payout taking place during the first quarter of 2018. Even though paid in part in equity, the Board of Directors does not consider equity awarded in connection with the executive bonus program to be part of an executive's equity compensation.

Stock Ownership Guidelines. While he serves as our chief executive officer, Mr. Glaser is expected to hold shares of our common stock equal to at least ten times his annual base salary. Mr. Glaser continued to meet this stock ownership threshold for fiscal year 2017.

Overall CEO Compensation Package. Our Board of Directors and our Compensation Committee believe that the 2017 compensation arrangements for Mr. Glaser were appropriate, in particular given that a significant portion, just over 62%, of the value of his 2017 compensation is equity-based, with over 70% of that requiring an increase in our stock price in order for Mr.

Glaser to realize any value. The 2017 compensation package for Mr. Glaser resulted in total direct compensation below the median for the 2016 Peer Group.

#### Base Salaries

Base salaries for our named executive officers are determined for each executive based on position, responsibility, experience and competitive market data. Base salaries are adjusted from time to time to recognize various levels of responsibility, promotions, individual performance, market conditions and internal equity issues. Rather than applying a formulaic approach, the Compensation Committee awards base salaries for our named executive officers within the context of our overall merit increase system considering level of responsibility, individual performance, market competitive factors, and the critical role of the executive in our future growth and strategy. The base salaries for our named executive officers were evaluated against data generated by F.W. Cook in its 2016 review. As a result of that assessment and other factors, the 2017 base salaries of our incumbent named executive officers were unchanged from 2016.

During the first quarter of 2018, the Compensation Committee approved a new annual base salary for Mr. Pellegrini of \$450,000 in connection with his promotion to President of RealNetworks, effective February 1, 2018, and to recognize his increased responsibilities and authority in his new role.

#### Annual Performance-Based Incentive Bonuses

In April 2017, the Compensation Committee established our 2017 Executive Bonus Plan, which is our performance-based incentive bonus program, in order to motivate and reward an individual's annual contribution to company performance. The Executive Bonus Plan is administered pursuant to the 2005 Plan. The Executive Bonus Plan pays an annual bonus, historically in the form of cash, to executives based on the achievement of pre-established financial and strategic objectives consistent with our internal strategic plan previously established by the Board in consultation with management.

Continuing our commitment to conserve cash resources and to include an additional performance component to the bonus program, the Compensation Committee determined that the payouts approved under the 2017 Executive Bonus Plan would be paid only 50% in cash, with the remaining 50% paid in the form of fully vested RSUs. A similar approach was taken with regard to the 2016 bonus payouts and, in 2015, 100% of the bonus was paid in equity. Because incentive bonuses have historically been paid only in cash, the Compensation Committee considers payouts under the incentive bonus program to be part of the cash compensation package for executives. There has been no determination by the Compensation Committee as to what form future payouts under the incentive bonus program will take. Accordingly, for purposes of this Compensation Discussion and Analysis and the compensation tables that follow, we report bonus payouts, whether in cash or in the form of fully vested equity, in the year in which the bonus is earned rather than the year in which it is paid, and we do not consider these bonus equity grants to be part of an executive's equity compensation.

Each of our named executive officers was eligible to participate in the 2017 Executive Bonus Plan. Mr. Glaser had a target bonus opportunity equal to 100% of his annual cash base salary and each of the other executives had a target bonus opportunity equal to 75% of his or her annual base salary. The Compensation Committee reviewed the targets and deemed them appropriate based on internal equity considerations and the desire to emphasize teamwork to achieve the company's performance objectives.

The following elements were applicable to our 2017 Executive Bonus Plan:

- Performance Criteria - The performance criteria used to determine the annual bonuses for the participating named executive officers were revenue and adjusted EBITDA for corporate results or contribution margin by reportable segment for divisional results, depending upon whether the executive had divisional responsibility. The Compensation Committee's philosophy is to establish performance goals for executives that reflect our strategy of producing financial results that (a) are in the interests of our company and shareholders, (b) have a degree of difficulty that the Compensation Committee considers to be challenging but achievable with significant effort and skill, and (c) require a high level of financial performance in the context of the present state of our business and the annual budget.

Consistent with this strategy, the Compensation Committee established revenue as a performance metric under the 2017 Executive Bonus Plan because it was a key element of our 2017 business plan and we consider revenue to be a key driver of our growth and success. The Compensation Committee also established adjusted EBITDA/contribution margin





as a performance metric under the 2017 Executive Bonus Plan in order to reward our executives for maintaining fiscal responsibility, implementing our cost reduction program, and achieving short-term profitability and therefore, like revenue, aligning the interests of plan participants with those of the company and its shareholders. Performance criteria for our named executive officers also included non-financial strategic goals intended to motivate each executive and the executive team as a whole to accomplish specific goals that would drive our growth and strong financial performance.

The following table indicates the 2017 performance goals for each named executive officer who participated in the 2017 Executive Bonus Plan, as well as the weightings of the goals. Note that for 2017 the revenue, adjusted EBITDA and contribution margin goals include the results of the low-margin music on demand business that we exited at the end of 2017. In accordance with U.S. GAAP, the results from this business are reported as discontinued operations in our 2017 financial statements; however, early in 2017, when the financial goals for our executive bonus plan were established, the results from this business were included in our budget and forecast and, accordingly, the bonus goals were established and assessed based on results that included this terminated business.

	Revenue Goals	Adjusted EBITDA or Contribution Margin Goals	Strategic Goals
	25%	25%	50%
Corporate executives - revenue and adjusted EBITDA goals are based on company-wide results			
Rob Glaser	Company Revenue	Company Adjusted EBITDA (1)	Shared goals among corporate executives and individual goals relating to: development of growth initiatives, supporting business unit growth strategies, managing cost structure efficiencies, and solidifying leadership teams
Cary Baker	Company Revenue	Company Adjusted EBITDA (1)	
Michael Parham	Company Revenue	Company Adjusted EBITDA (1)	
Business executives - revenue and contribution margin goals are based on divisional results			
Bill Patrizio	Consumer Media Division Revenue	Consumer Media Division Contribution Margin (2)	Shared goal of business executives and individual goals relating to: developing divisional growth initiatives, enhancing business unit growth strategy, improving divisional cost structure, and managing recruitment and leadership efforts
Max Pellegrini	Mobile Services Division Revenue	Mobile Services Division Contribution Margin (2)	

Adjusted EBITDA is a non-GAAP financial measure used by RealNetworks management in reporting financial results and is defined by the company as GAAP net income (loss) excluding the impact of the following: interest (1) income (loss), income tax expense, gain on investments, equity in net loss of Rhapsody, depreciation and amortization, acquisitions-related intangible asset amortization, stock-based compensation, restructuring and other charges, and lease exit and related charges.

Contribution margin by reportable segment is a non-GAAP financial measure used by RealNetworks management, beginning in 2016, in reporting financial results and is defined by the company as operating income (loss) plus (2) other income (expense) net, but excluding depreciation and amortization, acquisitions-related intangible asset amortization, stock-based compensation, restructuring and other charges, and lease exit and related charges.

•Performance Targets and Actual Performance - Target performance goals for the financial criteria were set based on objectives in our internal strategic plan for 2017. The strategic plan for 2017 served as the basis for company revenue and adjusted EBITDA targets and for Mobile Services and Consumer Media divisional revenue and contribution margin targets under the Executive Bonus Plan. The following table shows the target and actual revenue and adjusted EBITDA/contribution margin goals that applied to each named executive officer (as noted in parentheses):

Revenue Goals:	Target *	2017 Actual *
Company Revenue (Glaser, Baker, Parham)	\$121.37M	\$124.75M
Mobile Services Division Revenue (Pellegrini)	\$68.49M	\$76.79M
Consumer Media Division Revenue (Patrizio)	\$22.92M	\$22.57M
Adjusted EBITDA or Contribution Margin Goals:		
Company Adjusted EBITDA (Glaser, Baker, Parham)	(\$6.48M)	(\$9.60M)
Mobile Services Division Contribution Margin (Pellegrini)	\$3.24M	(\$1.79M)
Consumer Media Division Contribution Margin (Patrizio)	\$5.40M	\$5.44M

As noted above, for 2017 the revenue, adjusted EBITDA and contribution margin goals include the results of the low-margin music on demand business that we exited at the end of 2017. In accordance with U.S. GAAP, the results from this business are reported as discontinued operations in our 2017 financial statements. Early in 2017, however, \* when the financial goals for our executive bonus plan were established, the results from this business were included in our budget and forecast and, accordingly, the bonus goals were established and assessed based on results that included this terminated business. The results from discontinued operations relating to this business are set forth in Note 16 to the company's financial statements for the fiscal year ended December 31, 2017, which are included in the Annual Report on Form 10-K filed with the SEC on February 27, 2018.

Actual performance against the strategic goals set for 2017 was assessed for each executive during the first quarter of 2018. The Compensation Committee determined that the strategic goals, which comprised 50% of total bonus opportunity, were achieved at 72% attainment for Mr. Glaser, 75% for Mr. Baker, 87% for Mr. Parham, 100% for Mr. Patrizio, and 60% for Mr. Pellegrini. The bonus payouts for all named executive officers was purely formulaic, based upon the achievement level.

•Payout Structure - The overall payout structure ensured that there was no ability for participants in the 2017 Executive Bonus Plan to earn awards greater than target for adjusted EBITDA/contribution margin or revenue performance unless revenue or adjusted EBITDA/contribution margin performance, respectively, was at least at target, the rationale for which was to emphasize the need for both growth and operational discipline.

The payout mechanics of the 2017 Executive Bonus Plan based on financial metrics were as follows:

#### Revenue

Attainment	Incentive Payout(1)
<90%	No payout
90% - 100%	50 - 100%
100% - 120%+	100% - 200%

#### Adjusted EBITDA or Contribution Margin

Attainment	Incentive Payout(2)
>\$2M below budget	No payout
\$2M below, up to budget	50 - 100%
Budget to >\$2M above	100% - 200%

(1) Payout based on revenue goals was capped at 100% unless the adjusted EBITDA attainment/contribution margin reached 100%.

(2) Payout based on adjusted EBITDA/contribution margin goals was capped at 100% unless the revenue attainment reached 100%.

The 2017 Executive Bonus Plan included a discretionary modifier to adjust the calculated payout for an individual executive officer upward or downward by up to 25%, based on such factors as shareholder value creation, revenue growth, cash flow generation, use of capital, or other considerations that the Compensation Committee deemed relevant. Notwithstanding the performance and payout targets established under the 2017 Executive Bonus Plan, the Compensation Committee reserved

18

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the right to adjust performance and payout targets based on acquisitions or dispositions of assets and also decrease or eliminate an executive officer's award before it was paid. Executive officers were required to be employed on the date award payments were made in order to be eligible to receive payment under the 2017 Executive Bonus Plan, except in the case of death or disability.

The dollar-equivalent payouts earned for performance under the 2017 Executive Bonus Plan were as follows:

Name	Target % Payout under 2017 Executive Bonus Plan (as a percentage of base salary)	Actual % Payout under 2017 Executive Bonus Plan (as a percentage of base salary)	Actual \$ Payout under 2017 Executive Bonus Plan (1)
Rob Glaser	100%	61%	\$274,500
Cary Baker	75%	47% (2)	\$101,563
Michael Parham	75%	51%	\$154,125
Bill Patrizio	75%	75%	\$300,000
Max Pellegrini	75%	41%	\$165,600

Payouts were made 50% in cash and 50% in the form of fully vested RSUs, with Mr. Glaser being granted 49,370 (1) RSUs, Mr. Baker 18,266 RSUs, Mr. Parham 27,720 RSUs, Mr. Patrizio 53,956 RSUs, and Mr. Pellegrini 29,784 RSUs. Dollar values reported are equal to the total cash paid plus the grant date fair value of the RSUs awarded.

(2) Because Mr. Baker joined the company in May 2017, this percentage is calculated based on the actual, prorated cash salary earned in 2017.

During the first quarter of 2018, the Compensation Committee approved a 2018 bonus opportunity of 100% of annual base salary for Mr. Pellegrini in connection with his promotion to President of RealNetworks, effective February 1, 2018.

#### Special Cash Bonus Awards

From time to time, we utilize discretionary signing, promotion, retention or other bonus awards as compensation tools that provide incentives for executives to accept employment offers, to reward outstanding performance by executives and to retain key executives. We believe that these bonus awards are consistent with our overall executive compensation philosophy to achieve our recruiting and retention objectives as well as to allow discretion to address the needs of our businesses, which operate in a constantly evolving and highly competitive environment.

**Signing Bonus.** Pursuant to our offer letter to Mr. Baker, dated March 29, 2017, he was paid a signing bonus of \$100,000, subject to repayment in full if he voluntarily leaves his employment with RealNetworks other than for good reason (as defined in the offer letter) within 12 months of his start date. The Compensation Committee believed that this signing bonus was necessary to recruit Mr. Baker to the company.

#### The Role of Long-Term Equity Awards

Because the value of an equity award is dependent on our stock price, our equity compensation program is designed to align executive compensation with the interests of our shareholders and also with the long-term performance of RealNetworks. Equity compensation awards are also an important employee retention tool as they generally vest over a multi-year period, subject to continued service by the award recipient.

Consistent with the past several years, awards of stock options served as our primary equity vehicle for the 2017 executive compensation program. The rationale for this is to motivate executives to focus on increasing shareholder value.

2017 Option Awards. On May 11, 2017 the Compensation Committee granted a time-based stock option to Mr. Baker, in connection with the commencement of his employment with us, to acquire 200,000 shares of common stock with a per share exercise price equal to \$4.29, the closing price of a share of our common stock on the grant date. The option is scheduled to vest over four years, with 25% vesting on the one-year anniversary of the grant date, subject to continued employment, then as to an additional 12.5% at the expiration of each successive six months of continued employment. This award is larger than a typical annual award for the role and includes an inducement portion to attract and align, which is not expected to be continued

19

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at the same level in the future. The Compensation Committee believed that the award was appropriate as part of the compensation package necessary to recruit Mr. Baker to the company.

No option awards were granted to Messrs. Parham, Patrizio or Pellegrini in 2017.

On March 7, 2018, in connection with his promotion to President of RealNetworks, the Compensation Committee granted a time-based stock option to Mr. Pellegrini to acquire 500,000 shares of common stock with a per share exercise price equal to \$3.43, the closing price of a share of our common stock on the grant date. The option is scheduled to vest over four years, with 12.5% vesting on the date that is six months after the grant date, subject to continued employment, then as to an additional 12.5% at the expiration of each successive six months of continued employment. This award is larger than a typical annual award for the role and includes an inducement to take on the enhanced leadership role, which is not expected to be continued at the same level in the future. The Compensation Committee believed that the award was appropriate as part of the compensation package to recognize Mr. Pellegrini's promotion and increased responsibilities.

See the section entitled "Chief Executive Officer Compensation" for a discussion of Mr. Glaser's 2017 option awards. As discussed, he was granted an option valued at \$150,000 in 2017 as a supplement to his cash salary, plus a long-term option that is scheduled to vest over four years. The option granted in December 2017 reflected the "annual" long-term incentive portion of Mr. Glaser's 2017 compensation.

**2017 Restricted Stock Units Awards.** In March 2017, each of our named executive officers was granted a number of fully vested RSUs as partial payment of the incentive bonuses approved pursuant to the 2016 Executive Bonus Plan. These RSU awards were solely related to performance by the executives in 2016 and, accordingly, the cash value of these awards was reported as compensation in the 2016 Compensation Discussion and Analysis and related compensation tables. Because these awards were granted in 2017, although for service in 2016, they are reported in the "2017 Grants of Plan-Based Awards" table that follows this discussion. However, for purposes of describing and analyzing 2017 compensation, these awards are not included; instead, this 2017 Compensation Discussion and Analysis includes a discussion of the payouts approved pursuant to the 2017 Executive Bonus Plan even though the cash paid and RSUs granted that comprise these payouts were made in February of 2018. See the section under this Compensation Discussion and Analysis entitled "2017 Compensation — Annual Performance-Based Incentive Bonuses." **Benefits, Perquisites, Severance and Certain Benefits in Connection with a Change in Control**

**Benefits.** Benefits are part of a competitive compensation package to attract and retain employees, including executives. Our executive officers are eligible to participate in all of the benefit programs offered to employees in the geographic region in which their customary employment is based. These programs include medical, dental, vision, group life and disability insurance, a medical reimbursement plan, a transportation subsidy and an employee stock purchase plan that permits employees to purchase our common stock at a 15% discount from the closing sale price of our common stock as reported on The Nasdaq Stock Market on the last trading day of each offering period. Our employees, including our named executive officers, are also eligible to participate in our 401(k) savings plan, a tax-qualified retirement savings plan pursuant to which all U.S.-based employees are able to contribute the lesser of up to 50% of their cash compensation (including base salary, bonuses, commissions and overtime pay) or the limit prescribed by the Internal Revenue Service to the plan on a before-tax basis. RealNetworks will match 50% of the first 3% of pay that is contributed to the 401(k) savings plan. All employee contributions to the 401(k) savings plan are fully vested upon contribution. Matching contributions by RealNetworks become fully vested after three years, or earlier upon attainment of retirement age (as defined by the plan) or death or disability while still employed by RealNetworks. Our executive officers are eligible to participate in the benefit programs described above on the same basis as our other employees.

**Perquisites.** We may offer other benefits to our employees and executive officers from time to time, including relocation packages, which benefits are typically offered to help us compete more effectively to attract or retain an executive officer. When hiring new executives, we may offer relocation benefits that are typically subject to prorated repayment if the executive voluntarily leaves his or her employment with RealNetworks other than for good reason (as defined in the offer letter) within 12 months of his or her start date. In 2017, for Mr. Glaser, we imputed the \$6,664 in costs associated with the occupancy of office space and parking in our headquarters building by Mr. Glaser's personal assistant; for Mr. Baker, we reimbursed \$30,575 for relocation costs pursuant to the terms of his offer letter; and for Mr. Pellegrini, we reimbursed \$5,094 of travel benefits in accordance with a provision in his offer letter, which such

benefits were negotiated at the time of his hire. All of these amounts

20

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have been reported as taxable income to the respective executive and reported in the "Summary Compensation Table" that follows this discussion. Relocation benefits are subject to prorated repayment if the executive voluntarily leaves his employment with RealNetworks other than for good reason (as defined in the offer letter) within 12 months of his relocation. There were no other special benefits or perquisites provided to any other named executive officer in 2017. Severance Benefits. We have entered into arrangements with each of our named executive officers pursuant to which the executive may become entitled to receive severance benefits upon a qualifying termination of employment.

Additionally, Mr. Glaser's arrangements provide that if his employment terminates, but Mr. Glaser remains as Chairman of the Board, then he will remain eligible to participate in our group health plans or we may provide him with an annual cash payment equivalent to our premium cost for his participation in our group health plan. The terms of the severance benefits that each named executive officer is eligible to receive were negotiated with the executive at the time of his or her hire. The Compensation Committee believes that these severance benefits are appropriate in order to provide competitive compensation and enable the company to recruit and retain talented executives.

Severance and Change in Control Benefits. We entered into a severance agreement with Mr. Glaser pursuant to which he is eligible to receive certain severance benefits upon a qualifying termination in connection with a change in control. With all of our other named executive officers, we have agreed to "double-trigger" change in control and severance arrangements (the "CIC Agreements"). These agreements were entered into in order to encourage the retention and commitment of these executives during times of leadership transition and restructuring activities. Each of our executives has entered into a CIC Agreement in connection with his or her hire, or promotion. The Compensation Committee may request F.W. Cook to review peer practices and market data with respect to change in control and severance practices. The Compensation Committee last reviewed our change in control severance practices as compared to our peers, including the results of a study of peer practices compiled by F.W. Cook in August 2012 and determined that our practices in this regard were in line with those of our peers.

Our CIC Agreements provide for severance benefits if the employment of the executive is terminated without "cause" or such executive resigns for "good reason" (as such terms are defined in the CIC Agreement) during the period beginning three months prior to a change in control of the company and ending 12 months after the change in control. In addition, under our equity incentive plans, our executive officers may be eligible to receive certain benefits with respect to outstanding awards granted under our equity incentive plans in the event of a change in control of RealNetworks. A change in control of a corporation is often accompanied by changes in the corporate culture and job losses due to redundancy, especially at the executive levels. If a change in control of RealNetworks were under consideration, we expect that our executives could be faced with personal uncertainties and distractions about how the transaction may affect their continued employment with us. By granting awards under our equity incentive plans that include change in control benefits before any such transaction is contemplated, we hope to focus our executive's full attention and dedication to our shareholders' best interests in the event of a threatened or pending change in control, and to encourage the executive to remain employed by RealNetworks through the completion of any such transaction. The severance and change in control arrangements are described in further detail in the section below entitled, "2017 Potential Payments Upon Termination of Employment of Change-in-Control."

#### Tax, Accounting, and Governance Considerations

Deductibility of Executive Compensation. Section 162(m) of the Internal Revenue Code of 1986 generally limits the federal corporate income tax deduction for compensation paid by a public company to its chief executive officer and certain other executive officers to \$1 million in the year the compensation becomes taxable to the executive, unless the compensation is "performance-based compensation" or qualifies under certain other exceptions.

The Tax Cuts and Jobs Act (the "Act"), which was enacted on December 22, 2017, includes a number of significant changes to Section 162(m), such as the repeal of the qualified performance-based compensation exemption and the Act broadens the application of the deduction limit to additional executive officers who previously were exempt from such limit. As a result of these changes, except as otherwise provided in the transition relief provisions of the Act, compensation paid to any of our covered executives generally will not be deductible in 2018 or future years, to the extent that it exceeds \$1 million.

Our Compensation Committee seeks to balance its objective of ensuring an effective compensation package with the need to maximize the deductibility of executive compensation, and intends to seek to qualify executive compensation for deductibility under Section 162(m) to the extent consistent with the best interests of RealNetworks. However, due

to the scope

21

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and application of 162(m) under the Act, we cannot guarantee that any compensation in excess of \$1 million paid to our covered executives after 2017 will be or will remain exempt from Section 162(m).

**Accounting for Stock-Based Compensation.** We account for stock-based compensation in accordance with the requirements of Accounting Standards Codification Topic 718, Compensation - Stock Compensation. Under the fair value provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award.

**Compensation Risk Assessment.** Our Compensation Committee has reviewed our compensation policies and believes that our policies do not encourage excessive or inappropriate risk taking and that the level of risk that they do encourage is not reasonably likely to have a material adverse effect on the company. As part of its assessment, the Compensation Committee considered, among other factors, the allocation of compensation among base salary and short- and long-term compensation, our approach to establishing company-wide and individual financial, divisional and other performance targets, our bonus structure of payouts and the nature of our key performance metrics. We believe these practices encourage our employees to focus on sustained long-term growth, which we believe will ultimately contribute to the creation of shareholder value.

#### COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis for fiscal year 2017 with RealNetworks' management. Based on this review and discussion, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in RealNetworks' annual report on Form 10-K and proxy statement relating to the 2018 annual meeting of shareholders.

The Compensation Committee of the Board of Directors

Janice Roberts, Chair

Dawn G. Lepore

Dominique Trempont

#### EXECUTIVE COMPENSATION

Summary Compensation Table for Fiscal Years 2017, 2016 and 2015

The table below sets forth compensation information for the individuals who served as our chief executive officer and chief financial officer during 2017, and our three most highly compensated executive officers, other than our chief executive officer or chief financial officer, who served as executive officers as of December 31, 2017. We refer to these six individuals throughout this report as our "named executive officers" for 2017.

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Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Awards (\$)(3)	Option Awards (\$)(3)	Non-Equity	All Other Compensation (\$)(5)	Total (\$)
						Incentive Plan Compensation (\$)(4)		
Robert Glaser Founder, Chairman and Chief Executive Officer	2017	450,000	—	—	838,519	274,500	8,470	1,571,489
	2016	450,000	—	—	1,002,000	200,000	7,216	1,659,216
	2015	450,000	—	—	418,000	337,500	5,654	1,211,154
Cary Baker (6) Senior Vice President, Chief Financial Officer and Treasurer	2017	216,667	100,000	—	239,200	101,563	34,845	692,275
Michael Parham Senior Vice President, General Counsel and Corporate Secretary	2017	300,000	—	—	—	154,125	4,065	458,190
	2016	300,000	25,000	—	233,586	100,000	4,065	662,651
	2015	300,000	—	—	—	210,282	4,131	514,413
William Patrizio (7) President, Consumer Media	2017	400,000	—	—	—	300,000	5,856	705,856
	2016	115,384	100,000	88,600	406,000	75,000	2,742	787,726
Massimiliano Pellegrini (8) President, Mobile Services	2017	400,000	—	—	—	165,600	9,949	575,549
	2016	400,000	87,000	—	432,938	185,190	8,113	1,113,241
	2015	400,000	—	—	—	272,127	4,605	676,732
Marjorie O. Thomas (6) Former Senior Vice President, Chief Financial Officer and Treasurer	2017	114,583	—	—	—	—	3,060	117,643
	2016	325,000	—	—	132,000	100,000	5,278	562,278
	2015	316,458	100,000	—	382,740	206,586	25,568	1,031,352

The 2017 amount shown for Mr. Baker reflects the portion of his 2017 annual base salary of \$325,000 that was earned from the commencement of his employment with RealNetworks on May 5, 2017, through the end of fiscal (1) year 2017. The 2017 amount shown for Ms. Thomas reflects the portion of her 2017 annual base salary of \$325,000 that was earned from January 1, 2017 through the termination of her employment with RealNetworks on May 5, 2017.

The 2017 bonus amount reported for Mr. Baker represents a signing bonus negotiated in connection with his (2) recruitment to the company in May 2017, which is subject to repayment in full if he voluntarily leaves his employment with RealNetworks other than for good reason (as defined in the offer letter) within 12 months of his start date.

The amounts reported reflect the aggregate grant date fair value, excluding the effect of estimated forfeitures, of (3) awards granted in the year shown pursuant to our 2005 Plan, determined in accordance with financial accounting rules (FASB ASC Topic 718), rather than an amount paid to or realized by the executive officer. For a discussion of valuation assumptions for these awards, see Note 1 and Note 13 to our Notes to Consolidated Financial Statements included in our annual report on Form 10-K for the most recently completed fiscal year.

The amounts reported represent incentive bonus compensation that is based on performance in the year shown.

- (4) This performance-based incentive bonus compensation is discussed in further detail in the Compensation Discussion and Analysis in the section entitled “2017 Compensation — Annual Performance-Based Incentive Bonuses.” The bonuses determined to be payable pursuant to the 2017 Executive Bonus Plan were paid, in 2018, 50% in cash and 50% in the form of fully vested RSUs, with Mr. Glaser being granted 49,370 shares, Mr. Baker 18,266 shares, Mr. Parham 27,720 shares, Mr. Patrizio 53,956 shares and Mr. Pellegrini 29,784 shares pursuant to fully vested RSUs. The portion of the bonuses paid in the form of fully vested RSUs were treated as stock-based compensation pursuant to Accounting Standards Codification Topic 718, Compensation - Stock Compensation. Bonus payouts pursuant to the 2016 Executive Bonus Plan were also paid 50% in cash and 50% in the form of fully vested RSUs during the first quarter of 2017, and bonus payouts pursuant to the 2015 Executive Bonus Plan were 100% paid in the form of fully vested RSUs during the first quarter of 2016. All other compensation generally consists of RealNetworks’ 401(k) company match of up to \$4,050 and life insurance premiums paid by RealNetworks for the benefit of the named executive officer. For Mr. Glaser, however, all other compensation also includes \$6,664 for office space and parking for Mr. Glaser’s personal assistant. For Mr. Baker, all other compensation also includes \$30,575 for relocation costs pursuant to the terms of
- (5) his offer letter as described in the Compensation Discussion and Analysis in the section entitled "2017 Compensation - Perquisites." For Mr. Pellegrini, all other compensation also includes \$5,094 for the reimbursement of personal travel expenses pursuant to the terms of his offer letter as described in the Compensation Discussion and Analysis in the section entitled "2017 Compensation - Perquisites."

Mr. Baker was appointed Senior Vice President, Chief Financial Officer and Treasurer, and Ms. Thomas departed (6) from the company, both effective May 5, 2017.

As previously disclosed by the company, Mr. Patrizio left RealNetworks effective March 1, 2018 in conjunction (7) with being named President and Chief Executive Officer of Rhapsody International, Inc., an affiliate of the company.

As previously disclosed by the company, Mr. Pellegrini was promoted to the position of President of (8) RealNetworks effective February 1, 2018.

#### CEO Pay Ratio

For 2017:

The annual total compensation of the employee identified at the median of our company (other than our CEO), was \$62,809; and

The annual total compensation of our CEO was \$1,571,489.

Based on this information, for 2017, the ratio of the annual total compensation of Mr. Glaser, our CEO, to the median of the annual total compensation of all employees was estimated to be 25 to 1.

This pay ratio is a reasonable estimate calculated in a manner consistent with SEC rules based on our payroll and employment records and the methodology described below. The SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their compensation practices. As such, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies may have different employment and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

To identify the median of the annual total compensation of all our employees, as well as to determine the annual total compensation of the "median employee," the methodology and the material assumptions, adjustments, and estimates that we used were as follows.

We determined that, as of November 30, 2017, our employee population consisted of approximately 480 individuals globally. We selected November 30, which is within the last three months of 2017, as the date upon which we would identify the "median employee," because it allowed us to make such identification in a reasonably efficient and economical manner given the global scope of our operations.

We included all of our full-time, part-time, and temporary employees globally. The compensation of all newly hired permanent employees was annualized based on the compensation received during this period.

Earnings of our employees outside the U.S. were converted to U.S. dollars using the currency exchange rates applicable on November 30, 2017. We did not make any cost of living adjustments.

To identify the "median employee" from our employee population, we collected total cash compensation for each employee, including annual base salary and bonus paid during the period, as applicable, for 2017.

2017 Grants of Plan-Based Awards

The following table sets forth certain information with respect to grants of plan-based awards to our named executive officers for the year ended December 31, 2017.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards # of Shares or Units (#)(3)	All Other Option Awards: Number of Securities Underlying Awards (#)(3)(5)	Exercise Price of Stock Option Awards (\$/Sh) (4)	Grant Date Fair Value of Stock Option Awards (\$) (4)(6)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Rob Glaser	—	\$112,500	\$450,000	\$675,000							
	01/26/17								63,675	\$5.40	\$150,000
	03/15/17							20,920	—	—	\$100,000
	12/15/17				—	400,000	—			\$3.94	\$688,519
Cary Baker	—	\$40,625	\$162,500	\$243,750							
	05/11/17								200,000	\$4.29	\$239,200
Michael Parham	—	\$56,250	\$225,000	\$337,500							
	03/15/17							10,460	—	—	\$50,000
William Patrizio	—	\$75,000	\$300,000	\$450,000							
	03/15/17							7,845	—	—	\$37,500
Max Pellegrini	—	\$75,000	\$300,000	\$450,000							
	03/15/17							19,371	—	—	\$92,595
Marjorie Thomas	03/15/17							10,460	—	—	\$50,000

The amounts reported in these columns represent the threshold, target and maximum amounts of annual performance-based incentive bonus compensation that might have been paid to each named executive officer for 2017 performance. The actual payouts approved for 2017 performance are shown in the “Non-Equity Incentive Plan (1) Compensation” column of the “Summary Compensation Table.” These awards are described in further detail in the Compensation Discussion and Analysis in the section entitled “2017 Compensation — Annual Performance-Based Incentive Bonuses.” The bonus payouts approved pursuant to the 2017 Executive Bonus Plan were paid, during the first quarter of 2018, 50% in cash and 50% in the form of fully vested RSUs.

The amount reported in these columns represent the threshold, target and maximum amount of a stock option that was granted to Mr. Glaser in 2017. Mr. Glaser's option is scheduled to vest over four years, with 25% of the option (2) vesting on the one-year anniversary of the grant date and an additional 12.5% every six months thereafter. The award is described in further detail in the Compensation Discussion and Analysis in the section entitled “2017 Compensation — Chief Executive Officer Compensation — Long-term Equity Awards.”

The number of securities reported in this column represent restricted stock units or nonqualified stock options (3) granted under the 2005 Plan and are described in further detail above in the “Compensation Discussion and Analysis” and below in the “Outstanding Equity Awards at December 31, 2017” table. The per share exercise price of the stock options is equal to the closing price of a share of RealNetworks’ common stock on the date of grant.

The dollar amounts reported in this column reflect the aggregate grant date fair value, excluding the effect of estimated forfeitures, of the awards granted in 2017 pursuant to the 2005 Plan, determined in accordance with (4) financial accounting rules (FASB ASC Topic 718) rather than an amount paid to or realized by the executive officer. For a discussion of valuation assumptions, see Note 1 and Note 13 to our Notes to Consolidated Financial Statements included in our annual report on Form 10-K for the most recently completed fiscal year. The option exercise price has not been deducted from the amounts



indicated above. Regardless of the value placed on a stock option on the grant date, the actual value of the option will depend on the market value of RealNetworks' common stock at such date in the future when the option is exercised.

The proceeds to be paid to the individual following the exercise of the option do not include the option exercise price.

The option granted to Mr. Glaser on January 26, 2017, having a grant date fair value of \$150,000, represents his annual salary replacement option, which vests monthly over the fiscal year and which is described in more detail in the section of the Compensation Discussion and Analysis entitled "2017 Compensation — Chief Executive Officer Compensation — Salary Options." The option granted to Mr. Baker on May 11, 2017 was granted in connection with his hiring, pursuant to the terms of his offer letter, and is scheduled to vest over four years, with 25% of the option vesting on the one-year anniversary of the grant date and an additional 12.5% every six months thereafter.

The stock awards reported for all executives, except Mr. Baker, represent fully vested restricted stock units that were granted in lieu of cash as payout pursuant to the 2016 Executive Bonus Plan. Each of these share-based payments is described in more detail in the section of the Compensation Discussion and Analysis entitled "2017 Compensation — Annual Performance-Based Incentive Bonuses."

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Outstanding Equity Awards at Fiscal Year Ended December 31, 2017

The following table provides information regarding the holdings of stock options and RSUs by the named executive officers as of December 31, 2017. The market value of the RSUs is based on the closing price of RealNetworks common stock on The Nasdaq Stock Market on December 31, 2017, which was \$3.42.

Name	Vesting Commencement Date(1)	Option Awards		Equity Incentive Plan Awards: # of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Stock Awards		Equity Incentive Plan Awards: Number of Unearned Shares, or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, or Other Rights That Have Not Vested (\$)
		Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Exercisable Options (#)				Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Units of Stock That Have Not Vested (\$)		
Robert Glaser	12/31/2012	105,000 (2)	—		7.56	12/31/2019				
	12/24/2013	500,000 (4)	—		7.90	12/24/2020				
	01/17/2014	37,025 (2)	—		7.73	01/17/2021				
	07/28/2014	39,173 (3)	—		7.79	07/28/2021				
	01/22/2015	45,398 (3)	—		6.78	1/22/2022				
	12/31/2015			200,000 (5)	4.25	12/31/2022				
	01/26/2016	87,714 (3)	—		3.68	01/26/2023				
	12/22/2016			400,000 (5)	4.87	12/22/2023				
	01/26/2017	63,675 (3)	—		5.4	01/26/2024				
12/15/2017		400,000 (8)		3.94	12/15/2024					
Cary Baker	05/11/2017	—	200,000 (8)		4.29	05/11/2024				
Michael Parham	12/06/2016	121,098 (6)	—		4.73	12/06/2023				
	12/06/2016	90,000 (7)	30,000 (7)		4.73	12/06/2023				
	10/03/2016				4.43	10/03/2023				

Bill		87,500	262,500		
Patrizio		(8)	(8)		
Max		306,250	43,750		
Pellegrini	12/06/2016	(9)	(9)	4.73	12/06/2023
	12/06/2016	43,750	—	4.73	12/06/2023
	12/06/2016	(10)	—		
	12/06/2016	62,500	37,500	4.73	12/06/2023
		(11)	(11)		
Marjorie	—	—	—	—	—
Thomas	—	—	—	—	—

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For better understanding of this table, we have included an additional column showing the date on which the stock option grant commenced vesting, subject to (a) continuation of employment (or service) with the company (1) through the applicable vesting dates and (b) applicable performance conditions, if any, as indicated in footnotes (2) through (11) below.

- (2) The award was vested in full on the grant date.
- (3) Options vested monthly over the fiscal year in which the option is granted, subject to continued employment with the company through the applicable vesting dates, and were fully vested on December 31 of such year.
- (4) Options vest at the rate of 12.5% on the six-month anniversary of the vesting commencement date and 12.5% every six months thereafter, such that the award becomes fully vested on the four-year anniversary of the vesting commencement date subject to continued employment with the company through the applicable vesting dates.
- (5) The option becomes eligible to vest and exercisable only in the event of attainment of certain target total shareholder return objectives within three years of the grant date. Upon achievement of such total shareholder return, or TSR, objectives, the option vests in equal monthly installments over four years from the grant date, with retroactive vesting upon achievement of the TSR objectives, subject to continued service to the company through the applicable vesting dates.
- (6) Pursuant to the terms of the 2016 shareholder-approved option exchange program, the option vested as to 50% of the underlying shares on 6/06/17, and the remaining 50% of shares on 12/06/17, subject to continued service with the company through the applicable vesting dates.

Pursuant to the terms of the 2016 shareholder-approved option exchange program, the option vested as to 45,000 (7) shares on each of 6/06/17 and 12/06/17, and vests as to 15,000 shares on each of 1/25/18 and 7/25/18, subject to the recipient's continued service to the company through the applicable vesting dates.

Options vest at the rate of 25% on the one-year anniversary of the vesting commencement date and 12.5% every (8) six months thereafter, subject to the recipient's continued service to the company through the applicable vesting dates, such that the award becomes fully vested on the four-year anniversary of the vesting commencement date.

Pursuant to the terms of the 2016 shareholder-approved option exchange program, the option vested as to 153,125 (9) shares on each of 6/06/17 and 12/06/17, and vests as to 43,750 shares on 2/20/18, subject to the recipient's continued service to the company through the applicable vesting dates.

Pursuant to the terms of the 2016 shareholder-approved option exchange program, the option vested as to 21,875 (10) shares on each of 6/06/17 and 12/06/17, subject to continued service with the company through the applicable vesting dates.

Pursuant to the terms of the 2016 shareholder-approved option exchange program, the option vested as to 31,250 (11) shares on each of 6/06/17 and 12/06/17, and vests as to 12,500 shares on each of 6/06/18, 12/06/18, and 6/06/19, subject to the recipient's continued service to the company through the applicable vesting dates.

#### 2017 Option Exercises and Stock Vested

The following table provides information regarding restricted stock unit awards vested for our named executive officers during the fiscal year ended December 31, 2017. None of our named executive officers exercised any option awards during fiscal year 2017.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired (#)	Value Realized on Exercise (\$)	Number of Shares Acquired (#)	Value Realized on Vesting (\$)(1)
Rob Glaser	—	—	20,920	100,000
Cary Baker	—	—	—	—
Michael Parham	—	—	10,460	50,000
Bill Patrizio	—	—	7,845	37,500
Max Pellegrini	—	—	19,371	92,595
Marjorie Thomas	—	—	10,460	50,000

(1) Represents the number of shares vesting (including shares withheld to cover taxes) multiplied by the fair market value of RealNetworks' common stock on the vesting date. For all executives, except Mr. Baker who was not employed by RealNetworks on the relevant grant date, the stock award disclosed was granted as restricted stock units in lieu of cash as the bonus payout approved pursuant to the 2016 Executive Bonus Plan.

2017 Potential Payments Upon Termination of Employment or Change-in-Control

The following table reflects the amount of compensation that would have been payable to each of our named executive officers in the event of the termination of such executive's employment under certain circumstances, assuming that (1) the triggering event took place on December 31, 2017, (2) the price per share of our common stock was \$3.42, which was the closing market price on December 31, 2017, and (3) that all cash payments are made in a lump sum.

Name	Benefit	Not in	In Connection with			
		Connection with a Change in Control	a Change in Control			
		Termination Without Cause(\$)	Termination Without Cause or For Good Reason(\$)	Voluntary Termination(\$)	Death(\$)	Disability(\$)
Rob Glaser	Severance	1,800,000	1,800,000	—	—	—
	Bonus	274,500	450,000	—	—	—
	Equity award vesting acceleration	—	—	—	—	—
Cary Baker	Severance	325,000	639,843	—	—	—
	Bonus	101,562	—	—	101,562	101,562
	Equity award vesting acceleration	—	—	—	—	—
Michael Parham	Severance	352,000	406,250	—	—	—
	Bonus	—	—	—	154,125	154,125
	Equity award vesting acceleration	—	—	—	—	—