

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

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.

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.

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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 & 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 & 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&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:

-