

ZIONS BANCORPORATION /UT/
Form 10-Q
May 10, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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 001-12307

ZIONS BANCORPORATION

(Exact name of registrant as specified in its charter)

UTAH
(State or other jurisdiction

of incorporation or organization)

ONE SOUTH MAIN, 15TH FLOOR

SALT LAKE CITY, UTAH
(Address of principal executive offices)

Registrant's telephone number, including area code: **(801) 524-4787**

87-0227400
(I.R.S. Employer

Identification No.)

84133
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, without par value, outstanding at April 30, 2010

160,261,186 shares

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

INDEX

	Page
PART I. <u>FINANCIAL INFORMATION</u>	
ITEM 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	8
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	71
ITEM 4. <u>Controls and Procedures</u>	71
PART II. <u>OTHER INFORMATION</u>	
ITEM 1. <u>Legal Proceedings</u>	72
ITEM 1A. <u>Risk Factors</u>	72
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	72
ITEM 6. <u>Exhibits</u>	72
<u>SIGNATURES</u>	75

Table of ContentsPART I. FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTS (Unaudited)

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	March 31, 2010 (Unaudited)	December 31, 2009	March 31, 2009 (Unaudited)
ASSETS			
Cash and due from banks	\$ 1,045,391	\$ 1,370,189	\$ 1,321,972
Money market investments:			
Interest-bearing deposits and commercial paper	3,410,211	652,964	1,952,555
Federal funds sold	44,436	20,985	13,277
Security resell agreements	73,112	57,556	305,111
Investment securities:			
Held-to-maturity, at adjusted cost (approximate fair value \$820,689, \$833,455 and \$1,361,460)	867,335	869,595	1,648,971
Available-for-sale, at fair value	3,437,098	3,655,619	3,086,788
Trading account, at fair value	50,698	23,543	65,198
	4,355,131	4,548,757	4,800,957
Loans held for sale	171,892	208,567	262,785
Loans:			
Loans and leases excluding FDIC-supported loans	37,820,588	38,882,083	41,220,610
FDIC-supported loans	1,320,737	1,444,594	660,892
	39,141,325	40,326,677	41,881,502
Less:			
Unearned income and fees, net of related costs	131,723	137,697	124,749
Allowance for loan losses	1,581,577	1,531,332	832,878
Loans and leases, net of allowance	37,428,025	38,657,648	40,923,875
Other noninterest-bearing investments	909,601	1,099,961	1,051,956
Premises and equipment, net	707,387	710,534	701,742
Goodwill	1,015,161	1,015,161	1,034,465
Core deposit and other intangibles	106,839	113,416	124,585
Other real estate owned	414,237	389,782	243,609
Other assets	2,031,558	2,277,487	1,808,123
	\$ 51,712,981	\$ 51,123,007	\$ 54,545,012

LIABILITIES AND SHAREHOLDERS EQUITY

Deposits:			
Noninterest-bearing demand	\$ 12,799,002	\$ 12,324,247	\$ 10,517,910
Interest-bearing:			
Savings and NOW	5,978,536	5,843,573	4,710,899
Money market	16,667,011	16,378,874	18,103,564
Time under \$100,000	2,306,101	2,497,395	3,112,864
Time \$100,000 and over	2,697,261	3,117,472	4,647,015
Foreign	1,647,898	1,679,028	2,214,981

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	42,095,809	41,840,589	43,307,233
Securities sold, not yet purchased	47,890	43,404	39,892
Federal funds purchased	477,959	208,669	1,213,970
Security repurchase agreements	475,832	577,346	551,686
Other liabilities	563,683	588,527	578,768
Commercial paper	3,123	1,084	984
Federal Home Loan Bank advances and other borrowings:			
One year or less	175,312	120,189	429,655
Over one year	15,640	15,722	127,680
Long-term debt	2,000,821	2,017,220	2,715,310
Total liabilities	45,856,069	45,412,750	48,965,178
Shareholders' equity:			
Preferred stock, without par value, authorized 3,000,000 shares	1,532,323	1,502,784	1,587,027
Common stock, without par value; authorized 350,000,000 shares; issued and outstanding 160,300,162, 150,425,070 and 115,335,668 shares	3,517,621	3,318,417	2,607,541
Retained earnings	1,236,497	1,324,516	1,713,897
Accumulated other comprehensive income (loss)	(428,177)	(436,899)	(340,727)
Deferred compensation	(16,058)	(16,160)	(14,732)
Controlling interest shareholders' equity	5,842,206	5,692,658	5,553,006
Noncontrolling interests	14,706	17,599	26,828
Total shareholders' equity	5,856,912	5,710,257	5,579,834
	\$ 51,712,981	\$ 51,123,007	\$ 54,545,012

See accompanying notes to consolidated financial statements.

Table of Contents

ZIONS BANCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended	
	2010	2009
Interest income:		
Interest and fees on loans	\$ 540,446	\$ 579,852
Interest on loans held for sale	2,363	2,756
Lease financing	5,129	4,593
Interest on money market investments	1,439	3,376
Interest on securities:		
Held-to-maturity taxable	2,456	18,908
Held-to-maturity nontaxable	5,135	6,265
Available-for-sale taxable	20,971	21,703
Available-for-sale nontaxable	1,721	1,678
Trading account	475	571
Total interest income	580,135	639,702
Interest expense:		
Interest on savings and money market deposits	36,389	74,553
Interest on time and foreign deposits	19,687	62,679
Interest on short-term borrowings	3,067	6,020
Interest on long-term borrowings	65,692	21,675
Total interest expense	124,835	164,927
Net interest income	455,300	474,775
Provision for loan losses	265,565	297,624
Net interest income after provision for loan losses	189,735	177,151
Noninterest income:		
Service charges and fees on deposit accounts	51,608	52,788
Other service charges, commissions and fees	39,042	38,227
Trust and wealth management income	7,609	7,165
Capital markets and foreign exchange	8,539	13,204
Dividends and other investment income	7,700	8,408
Loan sales and servicing income	6,432	5,851
Fair value and nonhedge derivative income	2,188	4,004
Equity securities gains (losses), net	(3,165)	2,763
Fixed income securities gains, net	1,256	195
Impairment losses on investment securities:		
Impairment losses on investment securities	(48,570)	(165,616)
Noncredit-related losses on securities not expected to be sold (recognized in other comprehensive income)	17,307	82,943
Net impairment losses on investment securities	(31,263)	(82,673)
Valuation losses on securities purchased		(200,391)

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Gain on subordinated debt exchange	14,471					
Other	3,193	5,197				
Total noninterest income	107,610	(145,262)				
Noninterest expense:						
Salaries and employee benefits	204,333	204,161				
Occupancy, net	28,488	28,327				
Furniture and equipment	24,996	24,999				
Other real estate expense	32,648	18,343				
Legal and professional services	9,976	8,543				
Postage and supplies	7,646	8,410				
Advertising	6,374	7,148				
FDIC premiums	24,210	14,171				
Amortization of core deposit and other intangibles	6,577	6,886				
Provision for unfunded lending commitments	(20,133)	1,827				
Other	64,011	53,390				
Total noninterest expense	389,126	376,205				
Impairment loss on goodwill		633,992				
Income (loss) before income taxes	(91,781)	(978,308)				
Income taxes (benefit)	(28,644)	(151,727)				
Net income (loss)	(63,137)	(826,581)				
Net income (loss) applicable to noncontrolling interests	(2,927)	(540)				
Net income (loss) applicable to controlling interest	(60,210)	(826,041)				
Preferred stock dividends	(26,311)	(26,286)				
Net earnings (loss) applicable to common shareholders			213			213
Stock-based compensation expense - options			274			274
Common stock repurchased	(217,218)		(2,291)			(2,291)
Income tax effect from stock-based compensation			(31)			(31)
Balance at March 31, 2009	10,420,937		11	45,504	(203)	1,665
Net income						576
Unrealized gain on foreign currency translation					208	208
Unrealized gain on investments, net of tax					84	84
Comprehensive income						868
Common stock issued pursuant to stock plans	141,950		1,118			1,118
Common stock used to pay for option exercises and taxes	(3,590)		(75)			(75)
Common stock issued in exchange for deferred stock units	66,000					
Deferred stock units granted to Board of Directors			675			675
Stock-based compensation expense - options			559			559
Stock-based compensation expense - restricted stock units			947			947
Common stock repurchased	(29,850)		(302)			(302)
Income tax effect from stock-based compensation			461			461
Balance at March 31, 2010	10,595,447		11	48,887	89	2,241
Net income						87
Unrealized loss on foreign currency translation					(402)	(402)
Unrealized loss on investments, net of tax					(1)	(1)
Comprehensive income						(316)
Common stock issued pursuant to stock plans	357,404		1,421			1,421

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Common stock used to pay for option exercises	(16,610)		(391)		(391)
Common stock used to pay for taxes associated with vested RSUs	(50,724)		(1,236)		(1,236)
Deferred stock units granted to Board of Directors			108		108
Stock-based compensation expense - options			243		243
Stock-based compensation expense - restricted stock units			1,001		1,001
Income tax effect from stock-based compensation			785		785
Balance at June 30, 2010	10,885,517	\$	11	\$	50,818
					\$(314)
					\$ 2,328
					\$ 52,843

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**RENTRAK CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)****Note 1. Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements of Rentrak Corporation have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with the accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three-month period ended June 30, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2011. The Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes thereto included in our 2010 Annual Report to Shareholders.

The Condensed Consolidated Financial Statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position, results of operations and cash flows. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

Note 2. Net Income Per Share

Following is a reconciliation of the shares used for the basic earnings per share (EPS) and diluted EPS calculations (in thousands, except footnote reference):

	Three Months Ended June 30, 2010	2009
Basic EPS:		
Weighted average number of shares of common stock outstanding and vested deferred stock units (DSUs)	10,725 ⁽¹⁾	10,492 ⁽¹⁾
Diluted EPS:		
Effect of dilutive DSUs and stock options	501	416
	11,226	10,908
Options not included in diluted EPS as they would be antidilutive		275
Performance-based grants not included in diluted EPS	751	559

(1) Includes 69,500 and 87,000 vested DSUs, respectively, for the three months ended June 30, 2010 and 2009, that will not be issued until the director holding the DSUs retires from our Board of Directors.

Note 3. Business Segments, Significant Suppliers and Major Customers

We operate in two business segments, our Home Entertainment Division and Advanced Media and Information (AMI) Division, and, accordingly, we report certain financial information by individual segment under this structure. The Home Entertainment Division manages our business operations that deliver home entertainment content products and related rental and sales information for that content to our Participating Retailers on a revenue sharing basis. This division also includes Direct Revenue Sharing (DRS) services, which collects, tracks, audits and reports transactions and revenue data generated by DRS retailers, such as Blockbuster Entertainment, Netflix and kiosk companies, to studios. The AMI Division manages our Essentials Suite of business information services, primarily offered on a recurring subscription basis. The Other Division is a non-operating segment and includes expenses relating to products and/or services that are still in early stages, as well as corporate expenses and other expenses that are not allocated to a specific segment.

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Most of our revenues for the fiscal 2011 and 2010 periods were generated in the U.S. We also have operations in Canada, Russia, Hong Kong, the United Kingdom, Australia, Germany, France, Mexico, Argentina, Brazil and Spain. Revenue from these foreign locations in aggregate accounted for less than 10% of total revenues during the three-month periods ended June 30, 2010 and 2009.

Table of Contents

Assets are not specifically identified by segment as the information is not used by the chief operating decision maker to measure the segments performance.

Certain information by segment was as follows (in thousands):

	Home Entertainment	AMI	Other⁽¹⁾	Total
<u>Three Months Ended June 30, 2010</u>				
Sales to external customers	\$ 16,290	\$ 8,271	\$	\$ 24,561
Gross margin	4,737	5,920		10,657
Income (loss) from operations	2,804	1,078	(3,916)	(34)
<u>Three Months Ended June 30, 2009</u>				
Sales to external customers	\$ 18,066	\$ 3,571	\$	\$ 21,637
Gross margin	5,138	2,262		7,400
Income (loss) from operations	3,127	(222)	(2,793)	112

- (1) Includes expenses relating to products and/or services that are still in early stages, as well as corporate expenses and other expenses that are not allocated to a specific segment.

Note 4. Stock-Based Compensation

During the first quarter of fiscal 2011, 145,231 restricted stock units (RSUs) vested upon achieving one of the market conditions pursuant to award agreements related to the trading price of our common stock. We recognized \$0.3 million of additional compensation expense, included in selling, general and administrative expense, as the awards vested prior to the completion of the initially estimated requisite service period. In conjunction with the issuance of shares in settlement of these RSUs, we withheld 50,724 shares to pay the associated withholding taxes on behalf of the employees.

Stock-based compensation in the first quarter of fiscal 2011 also includes \$0.6 million for the increase in value of a stock award related to a compensation agreement entered into in the fourth quarter of fiscal 2010 with a non-employee in connection with services provided relating to our Essentials lines of business. This award is revalued at the end of each reporting period and any change in value is recognized during the current period.

Note 5. Fair Value Disclosures

We use a three-tier fair value hierarchy, which prioritizes the inputs used in measuring the fair value of our financial assets and liabilities as follows:

Level 1 quoted prices in active markets for identical securities;

Level 2 other significant observable inputs, including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.; and

Level 3 significant unobservable inputs, including our own assumptions in determining fair value.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Table of Contents

Following are the disclosures related to our financial assets (in thousands):

	June 30, 2010		March 31, 2010	
	Fair Value	Input Level	Fair Value	Input Level
Available for sale marketable securities				
Municipal tax exempt bond fund	\$ 22,273	Level 1	\$ 17,490	Level 1

The fair value of our available for sale securities is determined based on quoted market prices for identical securities on a quarterly basis.

Marketable securities, all of which were classified as available-for-sale at June 30, 2010 and March 31, 2010, consisted of the following (in thousands):

	June 30, 2010	March 31, 2010
Municipal tax exempt bond funds		
Amortized cost	\$ 22,259	\$ 17,474
Gross unrecognized holding gains	14	16
Gross unrecognized holding losses		
Fair value	\$ 22,273	\$ 17,490

Note 6. Acquisition of EDI-Business

We closed our acquisition of the EDI-Business on January 29, 2010. For the quarter ended June 30, 2010, we have included \$2.8 million in revenues and \$0.3 million in earnings related to the EDI-Business. Pro forma results of operations as if the EDI-Business had been acquired as of April 1, 2009, were as follows (in thousands):

	Three Months Ended June 30, 2009
Total revenues	\$ 24,562
Net income	200

Pro forma historical results of operations are not necessarily indicative of actual future results of operations.

Note 7. New Accounting Guidance*Recent Accounting Guidance Not Yet Adopted**ASU 2010-17*

In April 2010, the FASB issued ASU 2010-17, Revenue Recognition Milestone Method, which provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events such as successful completion of phases in a drug study or achieving a specific result from the research or development efforts. An entity often recognizes these milestone payments as revenue in their entirety upon achieving the related milestone, commonly referred to as the milestone method. The amendments in ASU 2010-17 are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. We do not expect the adoption of the provisions of ASU 2010-17 to have any effect on our financial position, results of operations or cash flows.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Forward Looking Statements

Certain information included in this Quarterly Report on Form 10-Q (including Management's Discussion and Analysis of Financial Condition and Results of Operations regarding revenue growth, gross profit margin and liquidity) constitute forward-looking statements that involve a number of risks and uncertainties. Forward-looking statements may be identified by the use of forward-looking words such as may, will, expects, intends, anticipates, estimates or continues or the negative thereof or variations thereon or comparable terminology. The following factors are among the factors that could cause actual results to differ materially from the forward-looking statements: our ability to retain and grow our customer base of retailers participating in the Pay-Per-Transaction system (the PPT System) (Participating Retailers) and customers for our business intelligence software and services; the financial stability of the Participating Retailers and performance of their obligations under our PPT System; business conditions and growth in the video industry and general economic conditions, both domestic and international; customer demand for movies in various media formats; competitive factors, including increased competition, expansion of revenue sharing programs other than the PPT System by motion picture studios or other licensees or owners of the rights to certain video programming content (Program Suppliers) and new technology; the continued availability of home entertainment content products (DVDs, Blue-ray Discs, etc.) (collectively Units) leased/licensed to home video specialty stores and other retailers from Program Suppliers; the loss of significant Program Suppliers; our ability to successfully develop and market new services, including our business intelligence services, to create new revenue streams; the development of similar business intelligence services by competitors with substantially greater financial and marketing resources than our company; and our ability to successfully integrate business acquisitions into our operations. This Quarterly Report on Form 10-Q further describes some of these factors. In addition, some of the important factors that could cause actual results to differ from our expectations are discussed in Item 1A to our fiscal 2010 Form 10-K, which was filed with the Securities and Exchange Commission on June 14, 2010. These risk factors have not significantly changed since the filing of the fiscal 2010 Form 10-K.

Business Trends

Our corporate structure includes separate Home Entertainment and Advanced Media and Information (AMI) operating divisions and, accordingly, we report certain financial information by individual segment under this structure.

Our Home Entertainment Division manages our business operations that deliver Units and related rental and sales information for the content to home video specialty stores and other retailers, on a revenue sharing basis. We lease product from various suppliers, typically motion picture studios. Under our Pay-Per-Transaction (PPT) System, retailers sublease that product from us and rent it to consumers. Retailers then share a portion of the revenue from each retail rental transaction with us and we share a portion of the revenue with the studio. Since we collect, process and analyze rental and sales information at the title level, we report that information to both the studios and the respective retailers.

Our Home Entertainment Division also includes our Direct Revenue Sharing (DRS) services, which encompass the collection, tracking, auditing and reporting of transaction and revenue data generated by DRS retailers, such as Blockbuster Entertainment, Netflix and kiosk companies, to our respective DRS clients, for rented entertainment content received both on physical product as well as digitally, under established agreements on a fee for service basis.

Our AMI Division manages our Essentials Suite of business information services. Our Essentials Suite software and services, offered primarily on a recurring subscription basis, provide unique data collection, management, analysis and reporting functions, resulting in business information valuable to our clients.

Table of Contents**The Home Entertainment Division**

The financial results from the Home Entertainment Division continue to be affected by the changing dynamics in the home video rental market as well as overall economic trends and conditions. This market is highly competitive and influenced greatly by consumer spending patterns and behaviors. The end consumer has a wide variety of choices from which to select their entertainment content and can easily shift from one provider to another. Some examples include renting product from our Participating Retailers or other retailers, purchasing previously viewed Units from our Participating Retailers or other retailers, ordering product via online subscriptions and/or online distributors (mail delivery), renting or purchasing product from kiosk locations, subscribing to at-home movie channels, downloading or streaming content via the Internet, purchasing and owning the Unit directly, or selecting an at-home pay-per-view or on demand option from a satellite or cable provider. Our PPT System focuses on the traditional brick and mortar retailer. We believe that our system successfully addresses the many choices available to consumers and affords our Participating Retailers the opportunity to stock their stores with a wider selection of titles and a greater supply of popular box office releases. Many of our arrangements are structured so that the Participating Retailers pay minimal upfront fees and lower per transaction fees in exchange for ordering Units of all titles offered by a particular Program Supplier (referred to as output programs). Since these programs usually result in more overall Units rented, our Participating Retailers' revenue and the corresponding share with the studios also increase.

In an effort to stabilize and maintain our current level of overall Home Entertainment Division revenue and earnings, we have implemented strategies to obtain new Participating Retailers, as well as assist in the retention and growth of our current Participating Retailers. The popularity of other choices an end consumer has to obtain entertainment content has been growing and our Participating Retailers' market share has been negatively affected. Thus, for the foreseeable future, we expect our revenues to continue to decline.

During May 2010, a major brick and mortar retailer, Movie Gallery, announced the closure of all of its stores. This action, which represents over 2,000 brick and mortar locations, will most likely cause consumer spending to shift to other retailers and/or increase consumers' usage of other alternatives, like kiosks, mail subscriptions or online delivery options. Also, during June 2010, as a result of financing issues, Blockbuster Entertainment's common stock was delisted by the New York Stock Exchange. While Movie Gallery and Blockbuster Entertainment were not direct customers of ours, we believe the overall industry is contracting as a result of these closures and financial events. However, we also believe this presents opportunities that potentially benefit our Participating Retailers through increased traffic from new customers and the opportunity to expand their business through the addition of store locations. We are actively assisting with these initiatives; however, it is too soon to predict what effect, if any, this will have on our future financial results.

We continue to be in good standing with our Program Suppliers, and we make on-going efforts to strengthen those business relationships through enhancements to our current service offerings and the development of new service offerings. We are also continually seeking to develop business relationships with new Program Suppliers. Our relationships with Program Suppliers typically may be terminated without cause upon thirty days' written notice by either party.

AMI Division

We continue to allocate significant resources towards our business information service offerings, both those services that are currently operational as well as those that are in various stages of development. Our AMI Division revenue increased \$4.7 million, or 132%, in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010. Our acquisition of the EDI Business, which occurred in January 2010, resulted in \$2.8 million in revenue during the first quarter of fiscal 2011. Our existing lines of business saw revenue growth of 56%.

The AMI Division lines of business which contribute most of the revenues currently are:

Box Office Essentials ;

OnDemand Essentials ;

TV Essentials , which includes StationView Essentials , Mobile Essentials and Internet TV Essentials ; and

All Other, which primarily includes Home Entertainment Essentials .

Table of Contents

Box Office Essentials reports domestic and international theatrical gross receipt ticket sales to motion picture studios and movie theater owners. We provide studios with access to box office performance data pertaining to specific motion pictures and movie theater circuits, both real-time and historical. Currently, Box Office Essentials delivers box office results from more than 50,000 movie screens across 26 countries.

OnDemand Essentials provides multi-channel operators, content providers (including broadcast/cable networks and studios) and advertisers with a transactional tracking and reporting system to view and analyze the performance of on demand content. We currently offer our services in the United States and Canada and provide information representing over 80 million set-top boxes (STBs) from every major operator that offers VOD programming.

TV Essentials is a comprehensive suite of research tools that calculates anonymous second-by-second audience viewing patterns in all facets of television programming and advertising including VOD, DVR, interactive and linear television. By providing transaction-level performance metrics from millions of STBs, TV Essentials provides insight into programming effectiveness, enabling networks and network operators to optimize their TV advertising inventory. Designed to handle data from the nation's 110 million television households, our systems can isolate individual market, network, series, or telecast performance, administer national and local estimates, and provide an evaluation of influencing factors such as psychographics and demographics for competitive, in-depth intelligence.

We have a multi-year contract with DISH Network (Dish), which allows us to commercially integrate Dish viewing data into TV Essentials . We expect the integrated product to be available commercially during our quarter ending September 30, 2010. Our systems have the capability to integrate third party segmentation databases with our data which should help our clients clearly define their advertising messages to consumers. We continue to build our research capabilities to assist us in moving our products from data to knowledge-based products and services.

We intend to continue to invest in our existing, as well as new, business information services in the near-term as we expand the markets we serve and our service lines. The cost of these investments will likely lower our earnings in the short-term. Longer-term, we believe we will be able to leverage these investments and generate revenue and earnings streams that contribute to our overall success.

Sources of Revenue

Revenue by segment includes the following:

Home Entertainment Division

Transaction fees generated when Participating Retailers rent Units to consumers; additionally, certain arrangements include guaranteed minimum revenues from our customers; we recognize the guaranteed minimum revenue on the street (release) date, provided all other revenue recognition criteria are met;

Sell-through fees generated when Participating Retailers sell previously-viewed rental Units to consumers and/or buy-out fees generated when Participating Retailers purchase Units at the end of the lease term;

DRS fees from data tracking and reporting services provided to Program Suppliers; and

Other fees, which primarily include order processing fees generated when Units are ordered by, and distributed to, Participating Retailers.

Table of Contents*AMI Division*

Subscription fee revenues from:

Box Office Essentials ;

OnDemand Essentials ;

TV Essentials , which includes StationView Essentials , Mobile Essentials and Internet TV Essentials ; and

All Other, which primarily includes Home Entertainment Essentials .

Results of Operations

Certain information by segment was as follows (in thousands):

	Home Entertainment	AMI	Other ⁽¹⁾	Total
Three Months Ended June 30, 2010				
Sales to external customers	\$ 16,290	\$ 8,271	\$	\$ 24,561
Gross margin	4,737	5,920		10,657
Income (loss) from operations	2,804	1,078	(3,916)	(34)
Three Months Ended June 30, 2009				
Sales to external customers	\$ 18,066	\$ 3,571	\$	\$ 21,637
Gross margin	5,138	2,262		7,400
Income (loss) from operations	3,127	(222)	(2,793)	112

- (1) Includes expenses relating to products and/or services that are still in early stages, as well as corporate expenses and other expenses that are not allocated to a specific segment.

Revenue

Revenue increased \$3.0 million, or 13.5%, to \$24.6 million in the first quarter of fiscal 2011 compared to \$21.6 million in the first quarter of fiscal 2010. The increase in revenue was primarily due to an increase in AMI revenue related to our acquisition of Nielsen's EDI Business in the fourth quarter of fiscal 2010, as well as growth in other AMI lines of business, offset by declines in revenue from the Home Entertainment Division. These fluctuations are described in more detail below.

Home Entertainment Division

Home Entertainment Division revenues decreased \$1.8 million, or 9.8%, in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010 as detailed below (dollars in thousands):

	Three Months Ended June 30,		Dollar	%
	2010	2009	Change	Change
Transaction fees	\$ 10,622	\$ 11,608	\$ (986)	(8.5)%

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Sell-through fees	2,668	3,003	(335)	(11.2)%
DRS	1,335	1,658	(323)	(19.5)%
Other	1,665	1,797	(132)	(7.3)%
	\$ 16,290	\$ 18,066	\$ (1,776)	(9.8)%

The decrease in transaction fees was primarily due to fewer rental transactions at our Participating Retailers, which decreased 12.4%, partially offset by a 4.4% increase in the rate per transaction, which includes the impact of minimum guarantees. The decrease in rental transactions was due to fewer Participating Retailers, as well as continued changing market conditions.

The decrease in sell-through fees was primarily due to a 14.4% decrease in sell-through volume as a result of an overall decline in Units available for sale, as well as a 1.8% decrease in the rate per transaction, offset by higher sales to brokers once Units reach their end of term.

The decrease in DRS revenue was primarily due to fewer transactions as a result of Movie Gallery's store closures, partially offset by new revenue from kiosk transactions.

Table of ContentsAMI Division

Revenues from our AMI division increased \$4.7 million, or 132%, in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010 as detailed below (dollars in thousands):

	Three Months Ended June 30,		Dollar Change	% Change
	2010	2009		
Box Office Essentials	\$ 4,439	\$ 1,580	\$ 2,859	180.9%
OnDemand Essentials	1,847	1,344	503	37.4%
TV Essentials	1,702	277	1,425	514.4%
All Other	283	370	(87)	(23.5)%
	\$ 8,271	\$ 3,571	\$ 4,700	131.6%

The increase in Box Office Essentials of \$2.9 million in the first quarter of fiscal 2011 was primarily due to the addition of business from our acquisition of the EDI Business in the fourth quarter of fiscal 2010. Other components of Box Office Essentials also showed modest increases as a result of rate increases for existing accounts.

The increase in OnDemand Essentials revenues of \$0.5 million in the first quarter of fiscal 2011 was due to a combination of obtaining new clients and rate increases for existing clients.

The increase in TV Essentials of \$1.4 million in the first quarter of fiscal 2011 was primarily due to the addition of clients.

Revenues related to our Essentials business information service offerings have increased primarily due to our continued investment in and successful marketing of these offerings and retention of clients. We expect continued future increases in our Essentials revenues as a result of further investments and additional successful launches of services.

Cost of Sales

Cost of sales consists of Unit costs, transaction costs, sell-through costs, handling and freight costs in the Home Entertainment Division and costs in the AMI Division associated with certain Essentials business information service offerings. These expenditures represent the direct costs to produce revenues.

In the Home Entertainment Division, Unit costs, transaction costs and sell-through costs represent the amounts due to the Program Suppliers that hold the distribution rights to the Units. Freight costs represent the cost to pick, pack and ship orders of Units to the Participating Retailers. Our cost of sales can also be impacted by the release dates of Units with guarantees. We recognize the guaranteed minimum costs on the release date. The terms of some of our agreements result in 100% cost of sales on titles in the first month in which the Unit is released, which results in lower margins during the initial portion of the revenue sharing period. Once the Unit's rental activity exceeds the required amount for these guaranteed minimums, margins generally expand during the second and third months of the Unit's revenue sharing period. However, since these factors are highly dependent upon the quality, timing and release dates of all new products, margins may not expand to any significant degree during any period. As a result, it is difficult to predict the impact these Program Supplier Revenue Sharing programs with guaranteed minimums will have on future results of operations in any reporting period.

In the AMI Division, a portion of the Essentials business information service offerings costs represent costs associated with the operation of a call center for our Box Office Essentials services, as well as costs associated with amortizing capitalized internally developed software used to provide the corresponding services and direct costs incurred to obtain, cleanse and process data and maintain our systems.

Cost of sales decreased \$0.3 million, or 2.3%, in the first quarter of fiscal 2011. The Home Entertainment Division's cost of sales decreased \$1.4 million as a result of lower revenues and was relatively flat as a percentage of revenues compared to the same period of the prior fiscal year. This was offset by a \$1.0 million increase in cost of sales in the AMI Division due to the growth in revenues. As a percentage of

Table of Contents

revenues, the AMI Division cost of sales was 28% in the first quarter of fiscal 2011 compared to 37% in the same period of the prior fiscal year. Since a portion of the AMI Division's costs are fixed, the increase in revenues provided a larger base over which to allocate those costs.

Selling and Administrative

Selling and administrative expenses consist primarily of compensation and benefits, development, marketing and advertising costs, legal and professional fees, communications costs, depreciation and amortization of tangible fixed assets and software, real and personal property leases, as well as other general corporate expenses.

Selling and administrative expenses increased \$3.5 million, or 49.9%, in the first quarter of fiscal 2011. This increase was primarily due to a \$1.6 million increase in stock-based compensation and a \$1.8 million increase related to the EDI Business acquisition.

Asset Impairment

Asset impairment of \$65,000 in the first quarter of fiscal 2010 related to various components of our Essentials' lines of business, which had been in development. Management concluded that it was likely the components would not be placed in service in the foreseeable future. These asset impairment charges did not significantly alter management's plans for the expansion of its Essentials' services.

Income Taxes

Our effective tax rate was a benefit of 45.0% in the first quarter of fiscal 2011 and was positively impacted by tax benefits on stock options exercised as well as the reversal of a tax contingency due to a lapse in the statute of limitations. The effective tax rate was 31.4% in the first quarter of fiscal 2010 and was positively impacted by federal and state research and experimentation credits, earnings on marketable securities that are exempt from federal income taxes and lower taxes in foreign jurisdictions.

Liquidity and Capital Resources

Our sources of liquidity include our cash and cash equivalents, marketable securities, cash expected to be generated from future operations and investments and our \$15.0 million line of credit. Based on our current financial projections and projected cash needs, we believe that our available sources of liquidity will be sufficient to fund our current operations, the continued current development of our business information services and other cash requirements through at least June 30, 2011.

Cash and cash equivalents and marketable securities increased \$4.0 million to \$23.9 million at June 30, 2010. This increase resulted primarily from \$3.8 million provided by operating activities and \$1.0 million provided from the issuance of our common stock from the exercise of stock options. These factors were partially offset by \$1.1 million used for the purchase of equipment and capitalized IT costs.

Accounts and notes receivable, net of allowances, decreased \$2.6 million to \$17.3 million at June 30, 2010, primarily due to lower Home Entertainment Division revenues.

During the first quarter of fiscal 2011, we spent \$1.1 million on property and equipment, including \$0.8 million for the capitalization of internally developed software for our business information service offerings. We anticipate spending a total of approximately \$5.1 million on property and equipment in fiscal 2011, including approximately \$3.8 million for the capitalization of internally developed software, primarily for our business information service offerings as we expand our Multi-Screen Essentials' lines of business and integrate and/or replace systems relating to the EDI-Business acquisition. The remaining capital expenditures in fiscal 2011 will be primarily for computer equipment.

Accrued compensation increased \$0.7 million to \$3.1 million at June 30, 2010, primarily due to a \$0.6 million increase in accrued stock-based compensation that will be settled in cash related to an agreement with a non-employee.

Table of Contents

Deferred revenue of \$1.3 million at June 30, 2010 included amounts related to quarterly or annual subscriptions to our services.

Deferred rent, current and long-term, of \$1.0 million at June 30, 2010 represents amounts received for qualified renovations on our corporate headquarters and free rent for the first three months of the lease term. The deferred rent is being amortized against rent expense over the term of the related lease at the rate of approximately \$24,000 per quarter.

In January 2006, our board of directors adopted a share repurchase program authorizing the purchase of up to 1.0 million shares of our common stock. Through June 30, 2010, a total of 723,367 shares had been repurchased under this plan at an average price of \$10.78 per share and 276,633 shares remained available for purchase. To date, no shares have been repurchased in fiscal 2011. This plan does not have an expiration date. We do not have an established plan for specific repurchases of shares in any period.

We currently have a revolving line of credit for \$15.0 million, with a maturity of December 1, 2011. Interest on the line of credit is LIBOR plus 1.5 percent. The credit line is secured by substantially all of our assets and includes certain financial covenants. Based upon the financial results reported as of and for the quarter ended June 30, 2010, we determined that we were in compliance with the financial covenants at June 30, 2010. At June 30, 2010, we had no outstanding borrowings under this agreement.

Critical Accounting Policies and Estimates

We reaffirm the critical accounting policies and estimates as reported in our fiscal 2010 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on June 14, 2010.

New Accounting Guidance

See Note 7 of Notes to Condensed Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

There have been no material changes in our reported market risks since the filing of our fiscal 2010 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on June 14, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (Exchange Act). Based on that evaluation our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management is in the process of evaluating its control structure relating to the EDI-Business and plans to have its assessment complete by December 31, 2010.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended March 31, 2010 includes a detailed discussion of our risk factors. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K. Accordingly, the information in this Form 10-Q should be read in conjunction with the risk factors and information disclosed in our fiscal 2010 Form 10-K, which was filed with the Securities and Exchange Commission on June 14, 2010.

ITEM 6. EXHIBITS

The following exhibits are filed herewith and this list is intended to constitute the exhibit index:

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

Table of Contents

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 4, 2010

RENTRAK CORPORATION

By: /s/ David I. Chemerow
David I. Chemerow
Chief Operating Officer and Chief Financial Officer

17