

RENTRAK CORP  
Form 10-Q  
November 06, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2014

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: 000-15159

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RENTRAK CORPORATION  
(Exact name of registrant as specified in its charter)

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Oregon 93-0780536  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

7700 NE Ambassador Place, 97220  
Portland, Oregon  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 503-284-7581

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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 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  (Do not check if a smaller reporting company) 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

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

Common stock \$0.001 par value  
(Class)

12,364,924  
(Outstanding at October 31, 2014)

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RENTRAK CORPORATION  
FORM 10-Q  
INDEX

|  | Page      |
|--|-----------|
| <b>PART I - FINANCIAL INFORMATION</b>  |           |
| Item 1. Financial Statements   |           |
| Condensed Consolidated Balance Sheets - September 30, 2014 and March 31, 2014 (unaudited)                                    | <u>2</u>  |
| Condensed Consolidated Statements of Operations - Three and Six Months Ended September 30, 2014 and 2013 (unaudited)         | <u>3</u>  |
| Condensed Consolidated Statements of Comprehensive Loss - Three and Six Months Ended September 30, 2014 and 2013 (unaudited) | <u>4</u>  |
| Condensed Consolidated Statements of Cash Flows - Six Months Ended September 30, 2014 and 2013 (unaudited)                   | <u>5</u>  |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>  | <u>6</u>  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                         | <u>13</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>21</u> |
| Item 4. <u>Controls and Procedures</u>   | <u>21</u> |
| <b><u>PART II - OTHER INFORMATION</u></b>  |           |
| Item 1A. <u>Risk Factors</u>   | <u>22</u> |
| Item 6. <u>Exhibits</u>  | <u>22</u> |
| <u>Signature</u>   | <u>23</u> |

Table of Contents

## PART I

## ITEM 1. FINANCIAL STATEMENTS

Rentrak Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share amounts)

|   | September 30,<br>2014 | March 31,<br>2014 |
|---|-----------------------|-------------------|
| Assets  |                       |                   |
| Current Assets:   |                       |                   |
| Cash and cash equivalents   | \$4,476               | \$5,102           |
| Marketable securities   | 18,833                | 16,868            |
| Accounts receivable, net of allowances for doubtful accounts of \$85 and \$162  | 14,946                | 12,199            |
| Taxes receivable and prepaid taxes  | —                     | 122               |
| Deferred tax assets, net  | 38                    | 44                |
| Assets held for sale  | 4,256                 | 5,443             |
| Other current assets  | 1,888                 | 2,818             |
| Total Current Assets  | 44,437                | 42,596            |
| Property and equipment, net of accumulated depreciation of \$25,584 and \$23,785  | 20,513                | 17,891            |
| Goodwill  | 6,841                 | 7,034             |
| Other intangible assets, net of accumulated amortization of \$3,837 and \$3,447   | 12,156                | 12,724            |
| Other assets  | 1,014                 | 1,022             |
| Total Assets  | \$84,961              | \$81,267          |
| Liabilities and Stockholders' Equity  |                       |                   |
| Current Liabilities:  |                       |                   |
| Accounts payable  | \$1,654               | \$1,766           |
| Accrued liabilities   | 1,275                 | 370               |
| Accrued data provider liabilities   | 8,500                 | 4,460             |
| Accrued compensation  | 5,445                 | 6,743             |
| Deferred revenue and other credits  | 3,423                 | 2,644             |
| Liabilities held for sale   | 2,995                 | 3,858             |
| Total Current Liabilities   | 23,292                | 19,841            |
| Deferred rent, long-term  | 2,329                 | 2,413             |
| Accrued compensation, long-term   | 4,800                 | 4,700             |
| Taxes payable, long-term  | 542                   | 520               |
| Deferred tax liability, net, long-term  | 884                   | 759               |
| Total Liabilities   | 31,847                | 28,233            |
| Commitments and Contingencies   | —                     | —                 |
| Stockholders' Equity:   |                       |                   |
| Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued   | —                     | —                 |
| Common stock, \$0.001 par value; shares authorized: 75,000 and 30,000; shares issued and outstanding: 12,342 and 12,213 | 12                    | 12                |
| Capital in excess of par value  | 85,505                | 83,562            |
| Accumulated other comprehensive income (loss)   | (11                   | ) 409             |
| Accumulated deficit   | (33,162               | ) (31,823         |
| Stockholders' Equity attributable to Rentrak Corporation  | 52,344                | 52,160            |
| Noncontrolling interest   | 770                   | 874               |
| Total Stockholders' Equity  | 53,114                | 53,034            |
| Total Liabilities and Stockholders' Equity  | \$84,961              | \$81,267          |

See accompanying Notes to Condensed Consolidated Financial Statements.

2

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Table of Contents

Rentrak Corporation and Subsidiaries  
Condensed Consolidated Statements of Operations  
(Unaudited)  
(In thousands, except per share amounts)

|  | For the Three Months Ended |            | For the Six Months Ended |            |   |
|--|----------------------------|------------|--------------------------|------------|---|
|  | September 30,              |            | September 30,            |            |   |
|  | 2014                       | 2013       | 2014                     | 2013       |   |
| Revenue  | \$25,241                   | \$17,843   | \$47,585                 | \$34,525   |   |
| Cost of revenue  | 8,040                      | 6,829      | 15,644                   | 13,118     |   |
| Gross margin   | 17,201                     | 11,014     | 31,941                   | 21,407     |   |
| Operating expenses:  |                            |            |                          |            |   |
| Selling, general and administrative  | 14,544                     | 11,332     | 27,378                   | 22,186     |   |
| Research, technology and innovation  | 3,073                      | 2,121      | 6,337                    | 3,991      |   |
| Total operating expenses   | 17,617                     | 13,453     | 33,715                   | 26,177     |   |
| Loss from continuing operations  | (416                       | ) (2,439   | ) (1,774                 | ) (4,770   | ) |
| Other income, net  | 20                         | 44         | 40                       | 91         |   |
| Loss from continuing operations before income taxes  | (396                       | ) (2,395   | ) (1,734                 | ) (4,679   | ) |
| Provision (benefit) for income taxes   | 337                        | (937       | ) 365                    | (1,262     | ) |
| Loss from continuing operations, net of income taxes   | (733                       | ) (1,458   | ) (2,099                 | ) (3,417   | ) |
| Income from discontinued operations, net of income taxes   | 308                        | 802        | 655                      | 1,563      |   |
| Net loss   | (425                       | ) (656     | ) (1,444                 | ) (1,854   | ) |
| Net loss attributable to noncontrolling interest   | (51                        | ) (22      | ) (104                   | ) (29      | ) |
| Net loss attributable to Rentrak Corporation   | \$(374                     | ) \$(634   | ) \$(1,340               | ) \$(1,825 | ) |
| Loss per share from continuing operations attributable to Rentrak Corporation common stockholders:     |                            |            |                          |            |   |
| Basic  | \$ (0.06                   | ) \$ (0.12 | ) \$ (0.16               | ) \$ (0.28 | ) |
| Diluted  | \$ (0.06                   | ) \$ (0.12 | ) \$ (0.16               | ) \$ (0.28 | ) |
| Income per share from discontinued operations attributable to Rentrak Corporation common stockholders: |                            |            |                          |            |   |
| Basic  | \$0.03                     | \$0.07     | \$0.05                   | \$0.13     |   |
| Diluted  | \$0.03                     | \$0.07     | \$0.05                   | \$0.13     |   |
| Net loss per share attributable to Rentrak Corporation common stockholders:                            |                            |            |                          |            |   |
| Basic  | \$ (0.03                   | ) \$ (0.05 | ) \$ (0.11               | ) \$ (0.15 | ) |
| Diluted  | \$ (0.03                   | ) \$ (0.05 | ) \$ (0.11               | ) \$ (0.15 | ) |
| Shares used in per share calculations:   |                            |            |                          |            |   |
| Basic  | 12,514                     | 12,104     | 12,529                   | 12,083     |   |
| Diluted  | 12,514                     | 12,104     | 12,529                   | 12,083     |   |

See accompanying Notes to Condensed Consolidated Financial Statements.



Table of Contents

Rentrak Corporation and Subsidiaries  
Condensed Consolidated Statements of Comprehensive Loss  
(Unaudited)  
(In thousands, except footnote references)

|  | For the Three Months Ended |           | For the Six Months Ended |             |
|--|----------------------------|-----------|--------------------------|-------------|
|  | September 30,              |           | September 30,            |             |
|  | 2014                       | 2013      | 2014                     | 2013        |
| Net loss   | \$ (425                    | ) \$ (656 | ) \$ (1,444              | ) \$ (1,854 |
| Other comprehensive income (loss):   |                            |           |                          |             |
| Foreign currency translation adjustments   | (411                       | ) 270     | (385                     | ) 295       |
| Unrealized holding losses which arose during the period on available-for-sale securities <sup>(1)</sup>          | (35                        | ) (54     | ) (35                    | ) (93       |
| Recognition of previously unrealized losses on available-for-sale securities included in net loss <sup>(2)</sup> | —                          | 2         | —                        | 2           |
| Other comprehensive income (loss)  | (446                       | ) 218     | (420                     | ) 204       |
| Comprehensive loss   | (871                       | ) (438    | ) (1,864                 | ) (1,650    |
| Comprehensive loss attributable to noncontrolling interest   | (51                        | ) (22     | ) (104                   | ) (29       |
| Comprehensive loss attributable to Rentrak Corporation   | \$ (820                    | ) \$ (416 | ) \$ (1,760              | ) \$ (1,621 |

(1) For the three and six months ended both September 30, 2014 and 2013, the amounts are net of zero deferred taxes.

(2) For the three and six months ended September 30, 2013, the amounts are net of zero deferred tax benefits.

See accompanying Notes to Condensed Consolidated Financial Statements.



Table of Contents

Rentrak Corporation and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)  
(In thousands)

|  | For the Six Months Ended September |            |
|--|------------------------------------|------------|
|  | 30,                                | 2013       |
|  | 2014                               | 2013       |
| Cash flows from operating activities:  |                                    |            |
| Net loss   | \$(1,444                           | ) \$(1,854 |
| Income from discontinued operations, net of income taxes   | (655                               | ) (1,563   |
| Adjustments to reconcile net loss to net cash flows provided by operating activities of continuing operations: |                                    |            |
| Depreciation and amortization  | 3,400                              | 2,824      |
| Stock-based compensation   | 3,862                              | 3,345      |
| Deferred income taxes  | 207                                | 154        |
| Loss on disposition of assets  | 98                                 | —          |
| Realized loss on marketable securities   | —                                  | 2          |
| Adjustment to allowance for doubtful accounts  | (77                                | ) (21      |
| (Increase) decrease in:  |                                    |            |
| Accounts receivable  | (2,747                             | ) (512     |
| Taxes receivable and prepaid taxes   | 122                                | (142       |
| Other assets   | 967                                | (108       |
| Increase (decrease) in:  |                                    |            |
| Accounts payable   | (112                               | ) 803      |
| Taxes payable  | 737                                | (142       |
| Accrued liabilities and compensation   | (179                               | ) 1,093    |
| Deferred revenue   | 781                                | (382       |
| Deferred rent  | (85                                | ) 64       |
| Net cash provided by operating activities of discontinued operations   | 1,175                              | 2,627      |
| Net cash provided by operating activities  | 6,050                              | 6,188      |
| Cash flows from investing activities:  |                                    |            |
| Purchase of marketable securities  | (8,000                             | ) (2,500   |
| Sale of marketable securities  | 6,000                              | 1,000      |
| Payments made to develop intangible assets   | (53                                | ) (104     |
| Purchase of property and equipment   | (5,265                             | ) (3,442   |
| Net cash used in investing activities of discontinued operations   | —                                  | (112       |
| Cash paid for acquisition, net of cash acquired, and equity investment   | —                                  | (322       |
| Net cash used in investing activities  | (7,318                             | ) (5,480   |
| Cash flows from financing activities:  |                                    |            |
| Proceeds from issuance of common stock   | 757                                | 653        |
| Net cash provided by financing activities  | 757                                | 653        |
| Effect of foreign exchange translation on cash   | (115                               | ) 261      |
| (Decrease) increase in cash and cash equivalents   | (626                               | ) 1,622    |
| Cash and cash equivalents:   |                                    |            |
| Beginning of period  | 5,102                              | 3,835      |
| End of period  | \$4,476                            | \$5,457    |
| Supplemental non-cash information:   |                                    |            |
| Capitalized stock-based compensation   | \$329                              | \$511      |
| Common stock used to pay for option exercises  | 1,485                              | 69         |

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|  |       |     |
|--|-------|-----|
| Common stock used to pay for taxes associated with option exercises              | 990   | 32  |
| Common stock used to pay for taxes associated with vested restricted stock units | 2,121 | —   |
| Decrease in leasehold improvements related to forgiven loan                      | —     | 550 |
| Common stock used to pay for acquisition   | —     | 375 |
| See accompanying Notes to Condensed Consolidated Financial Statements.           |       |     |

5

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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 and six month periods ended September 30, 2014 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2015 (“Fiscal 2015”). The Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes thereto included in our 2014 Annual Report on Form 10-K (the “Form 10-K”).

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, primarily related to the presentation of discontinued operations, have been made to the prior period financial statements to conform to the current period presentation.

## Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of Rentrak Corporation and its wholly owned subsidiaries, and those entities in which we have a controlling interest. All intercompany accounts and transactions have been eliminated in consolidation.

In Fiscal 2012, we established a Chinese joint venture, Sinotrak, and hold a 49% ownership interest in this variable interest entity (the “VIE”). Sinotrak has been included in our Condensed Consolidated Financial Statements, as we have determined that we are the primary beneficiary of the VIE, given our significant influence over day to day operations, among other factors. To date, the activities of Sinotrak have been limited primarily to initial cash contributions from both joint venture parties and costs associated with Sinotrak’s formation. The equity interests of the noncontrolling party, totaling \$0.8 million as of September 30, 2014, are reported as a noncontrolling interest in our Condensed Consolidated Balance Sheets. The noncontrolling party’s share of the expenses for the three and six months ended September 30, 2014 and 2013, are included in “Net loss attributable to noncontrolling interest” on our Condensed Consolidated Statements of Operations.

## Note 2. Net Loss Per Share

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

|  | Three Months Ended<br>September 30, |        | Six Months Ended September<br>30, |        |
|--|-------------------------------------|--------|-----------------------------------|--------|
|  | 2014                                | 2013   | 2014                              | 2013   |
| Basic EPS:   |                                     |        |                                   |        |
| Weighted average number of shares of common stock outstanding and vested deferred stock units (“DSUs <sup>(c)</sup> ”) | 12,514                              | 12,104 | 12,529                            | 12,083 |
| Diluted EPS:   |                                     |        |                                   |        |
| Effect of dilutive stock options and unvested DSUs   | —                                   | —      | —                                 | —      |
|  | 12,514                              | 12,104 | 12,529                            | 12,083 |
| Total outstanding options not included in diluted EPS as they would be antidilutive                                    | 3,239                               | 2,858  | 3,239                             | 2,858  |

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Performance and market-based grants not included in diluted EPS — 239 — 239

(1) Includes 177,569 and 178,302 vested cumulative DSUs, respectively, for the three months ended September 30, 2014 and 2013 and 174,496 and 174,228 vested cumulative DSUs, respectively, for the six months ended September 30, 2014 and 2013 that will not be issued until the directors holding the DSUs retire from our Board of Directors.

6

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Table of Contents

## Note 3. Discontinued Operations

During the fourth quarter of Fiscal 2014, we initiated our plan to sell our PPT® business, which has been a longstanding legacy business of Rentrak and a significant component of the Home Entertainment operating division. Had we decided to retain the line, for the three months ended September 30, 2014 and 2013, it would have represented 22.5% and 39.5%, respectively, of our total revenue, and for the six months ended September 30, 2014 and 2013, it would have represented 25.1% and 40.8%, respectively, of our total revenue. Our PPT® business has been in a state of decline due to the decline of physical DVD rentals from retail stores. This strategic decision to sell PPT® will enable us to focus more fully on the growth of our media measurement business and advanced consumer targeting business. Accordingly, we have restated our financial results, and the PPT® business is reported as discontinued operations for all periods presented.

Operating results from discontinued operations are included in the Condensed Consolidated Statements of Operations as follows (dollars in thousands):

|  | Three Months Ended September |          | Six Months Ended September |          |
|--|------------------------------|----------|----------------------------|----------|
|  | 30,                          |          | 30,                        |          |
|  | 2014                         | 2013     | 2014                       | 2013     |
| Revenue  | \$7,323                      | \$11,632 | \$15,905                   | \$23,792 |
| Income from operations                                   | \$538                        | \$1,383  | \$1,126                    | \$2,695  |
| Other expense  | 37                           | —        | 37                         | —        |
| Income before income taxes                               | 501                          | 1,383    | 1,089                      | 2,695    |
| Income tax provision                                     | 193                          | 581      | 434                        | 1,132    |
| Income from discontinued operations, net of income taxes | \$308                        | \$802    | \$655                      | \$1,563  |

As of September 30, 2014 and March 31, 2014, assets and liabilities relating to discontinued operations are as follows (dollars in thousands):

|   | September 30, | March 31, 2014 |
|---|---------------|----------------|
|   | 2014          |                |
| Accounts receivable, net of allowances of \$204 and \$218                             | \$3,969       | \$5,015        |
| Other current assets  | 114           | 167            |
| Property, plant and equipment, net of accumulated depreciation of \$1,178 and \$1,086 | 173           | 261            |
| Total assets held for sale  | \$4,256       | \$5,443        |
| Accounts payable  | \$2,517       | \$3,009        |
| Accrued liabilities   | 1             | 1              |
| Accrued compensation  | 477           | 848            |
| Total liabilities held for sale   | \$2,995       | \$3,858        |

Table of Contents

## Note 4. Stock-Based Compensation

The following table summarizes our stock based grants:

|   | Three Months<br>Ended<br>September 30,<br>2014 | Six Months Ended<br>September 30,<br>2014 |
|---|--|---|
| Option grant:   |  |   |
| Shares granted from 2011 Incentive Plan to non-executive director   | 5,267  | 5,267                                     |
| Fair market value per share on date of grant  | \$46.92  | \$46.92                                   |
| Expiration period, in years   | 10   | 10  |
| Vesting period, in years  | 1  | 1   |
| Compensation information related to option granted in period <sup>(1)</sup> (in thousands):   |  |   |
| Total valuation, recognized over vesting period   | \$100  | \$100                                     |
| Total expected expense to be recognized in Fiscal 2015  | \$64   | \$64                                      |
| Expense recognized as a component of operating expenses   | \$9  | \$9                                       |
| Restricted Stock ("RSU") grants:  |  |   |
| Units granted from 2011 Incentive Plan  | 67,127   | 529,530                                   |
| Vesting period, in years - high   | 10   | 10  |
| Vesting period, in years - low  | 1  | 1   |
| Compensation information related to RSUs granted in period (in thousands):  |  |   |
| Total fair market value, recognized over vesting period   | \$3,777  | \$26,061                                  |
| Total expected expense to be recognized in Fiscal 2015  | \$482  | \$2,609                                   |
| Expense recognized as a component of operating expenses   | \$25   | \$1,007                                   |
| Expense capitalized in property and equipment, net <sup>(2)</sup>   | \$16   | \$16                                      |
| RSUs vesting in period:   |  |   |
| Additional compensation expense recorded for awards vesting prior to the completion of the initially estimated requisite service period, recognized as a component of operating expenses (in thousands) | 7,080  | 87,268                                    |
| Shares withheld in payment for taxes associated with vested RSUs  | \$—  | \$6                                       |
|   | 2,705  | 41,205                                    |
| DSU grants:   |  |   |
| Units granted from 2011 Incentive Plan to non-executive directors   | 14,917   | 14,917                                    |
| Vesting period, in years  | 1  | 1   |
| Compensation information related to DSUs granted in period (in thousands):  |  |   |
| Total fair market value, recognized over vesting period   | \$700  | \$700                                     |
| Total expected expense to be recognized in Fiscal 2015  | \$445  | \$445                                     |
| Expense recognized as a component of operating expenses   | \$64   | \$64                                      |
| DSUs converted to common shares in period   | 30,581   | 30,581                                    |

(1) Compensation amounts based on Black-Scholes valuation.

(2) Amounts capitalized in accordance with our policies related to Capitalized software as described in Note 2 of Notes to Consolidated Financial Statements in the Form 10-K.

## 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 – quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose significant inputs are observable; and

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

Table of Contents

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

Following are the disclosures related to our financial assets that are measured at fair value on a recurring basis (dollars in thousands):

|  | September 30, 2014 |             | March 31, 2014 |             |
|--|--------------------|-------------|----------------|-------------|
|  | Fair Value         | Input Level | Fair Value     | Input Level |
| Available-for-sale marketable securities |                    |             |                |             |
| Fixed-income securities                  | \$18,833           | Level 1     | \$16,868       | Level 1     |

The fair value of our “available-for-sale” marketable securities is determined based on quoted market prices for identical securities on a quarterly basis. There were no changes to our valuation methodologies during the first six months of Fiscal 2015.

See Note 6 for disclosures related to the fair value determination for the contingent consideration liability associated with our acquisition of iTVX, which is a Level 3 liability. There were no changes to our valuation techniques during the first six months of Fiscal 2015.

Marketable securities, all of which were classified as “available-for-sale” at September 30, 2014 and March 31, 2014, consisted of the following (dollars in thousands):

|  | September 30,<br>2014 | March 31,<br>2014 |
|--|-----------------------|-------------------|
| Available-for-sale marketable securities |                       |                   |
| Amortized cost                           | \$18,868              | \$16,868          |
| Gross unrecognized holding losses        | (35                   | ) —               |
| Fair value                               | \$18,833              | \$16,868          |

#### Note 6. Acquisition of iTVX, Inc. (“iTVX”)

In August 2013, we acquired the outstanding stock of iTVX, a provider of branded entertainment analytics, insight and research, for \$2.8 million. iTVX is reported as a component of TV Essentials® and expands our product and service offerings. We made an initial payment of approximately \$0.8 million, of which \$383,000 was paid in cash and \$405,000 was paid with 17,209 shares of our common stock. The acquisition also includes contingent consideration which, if earned, will be paid in January 2016, and is based on future revenue achieved after the completion of approximately 2 years. The range of the undiscounted amounts we could pay under the contingent consideration arrangement is between \$0.5 million and \$7.0 million. The fair value of the contingent consideration as of the acquisition date was \$2.0 million. The contingent consideration payment will be paid in the form of cash (25% of the total contingent consideration) and shares of our common stock (75% of the total contingent consideration).

We estimated the fair value of the contingent consideration using a beta probability distribution approach. Acquisition related contingent consideration liabilities are classified as Level 3 liabilities because we use unobservable inputs to value them, reflecting our assessment of the assumptions market participants would use to value these liabilities. Changes in the fair value of contingent consideration arrangements are recorded as income or expense in our Condensed Consolidated Statements of Operations. In the three and six month periods ended September 30, 2014, the fair value of the estimated contingent consideration arrangement, as well as the related expense, increased by \$0.6 million and \$0.1 million, respectively. The increase was a result of an increase in the value of our common stock price and has been included in selling, general and administrative expenses on our Condensed Consolidated Statements of Operations. The common stock portion of the contingent consideration arrangement has a fixed price of \$21.795 per share, and any fluctuation in our common stock price above or below this amount will affect the fair value of the payment and our results of operations. The fair value of the estimated contingent consideration as of September 30,



2014, was \$4.8 million and is included in accrued compensation, long-term in our Condensed Consolidated Balance Sheets.

In allocating the purchase price consideration based on fair values, we recorded \$0.9 million of acquired intangible assets with useful lives of 1 to 6 years, \$1.9 million of goodwill, \$0.3 million of net tangible assets and \$0.3 million of deferred tax liabilities. The goodwill recorded in connection with this business combination is primarily related to the synergies to be achieved that are unique to our business.

For the three and six months ended September 30, 2014, we included \$0.4 million and \$0.8 million, respectively, in revenue and \$0.3 million and \$0.6 million, respectively, in net losses related to iTVX since the acquisition date, excluding the adjustment for

Table of Contents

the contingent consideration as a result of the increase in our common stock price as noted above. For the three and six months ended September 30, 2014, we incurred amortization expense of \$46,000 and \$92,000, respectively, relating to the intangible assets acquired, which is included in selling and administrative expenses in our Condensed Consolidated Statements of Operations.

## Note 7. Goodwill and Other Intangible Assets

## Goodwill

The roll-forward of our goodwill was as follows (dollars in thousands):

|                      | Six Months Ended<br>September 30,<br>2014 |
|----------------------|---|
| Beginning balance    | \$7,034                                   |
| Currency translation | (193 )                                    |
| Ending balance       | \$6,841                                   |
|                      | Year Ended March<br>31, 2014              |
| Beginning balance    | \$4,998                                   |
| Acquisition of iTVX  | 1,888                                     |
| Currency translation | 148                                       |
| Ending balance       | \$7,034                                   |

## Other Intangible Assets

Other intangible assets and the related accumulated amortization were as follows (dollars in thousands):

|                          | Amortization<br>Period | September 30,<br>2014 | March 31,<br>2014 |
|--------------------------|------------------------|-----------------------|-------------------|
| Local relationships      | 6 to 10 years          | \$7,710               | \$7,941           |
| Accumulated amortization |                        | (3,590 )              | (3,251 )          |
|                          |                        | 4,120                 | 4,690             |
| Trade names              | 2 to 3 years           | 75                    | 75                |
| Accumulated amortization |                        | (64 )                 | (58 )             |
|                          |                        | 11                    | 17                |
| Existing technology      | 4 years                | 334                   | 334               |
| Accumulated amortization |                        | (141 )                | (108 )            |
|                          |                        | 193                   | 226               |
| Patents                  | 20 years               | 471                   | 419               |
| Accumulated amortization |                        | (39 )                 | (29 )             |
|                          |                        | 432                   | 390               |
| Order backlog            | 1 year                 | 2                     | 2                 |
| Accumulated amortization |                        | (2 )                  | (1 )              |
|                          |                        | —                     | 1                 |
| Global relationships     | Indefinite             | 7,400                 | 7,400             |
| Total                    |                        | \$12,156              | \$12,724          |

Table of Contents

Amortization expense and currency translation were as follows (dollars in thousands):

|                      | Six Months Ended September |       |
|----------------------|----------------------------|-------|
|                      | 2014                       | 2013  |
| Local relationships  | \$469                      | \$416 |
| Trade names          | 6                          | 2     |
| Existing technology  | 34                         | 8     |
| Patents              | 11                         | 8     |
| Order backlog        | 1                          | 1     |
| Currency translation | (131                       | ) 102 |
|                      | \$390                      | \$537 |

Expected amortization expense is as follows over the next five years and thereafter (dollars in thousands):

| Fiscal                   | Local Relationships | Trade names | Existing Technology | Patents |
|--------------------------|---------------------|-------------|---------------------|---------|
| Remainder of Fiscal 2015 | \$485               | \$6         | \$34                | \$12    |
| 2016                     | 970                 | 5           | 67                  | 24      |
| 2017                     | 970                 | —           | 67                  | 24      |
| 2018                     | 853                 | —           | 25                  | 24      |
| 2019                     | 369                 | —           | —                   | 23      |
| Thereafter               | 473                 | —           | —                   | 325     |
|                          | \$4,120             | \$11        | \$193               | \$432   |

#### Note 8. Income Taxes

Our effective tax rates are determined by excluding certain jurisdictions with net losses. Our tax provision for the first six months of Fiscal 2015 was 21.0% due to the effect of allocations to discontinued operations. Without these allocations, the provision would have been substantially lower due to the offset of both net operating losses and the valuation allowance on deferred taxes.

Our effective tax rate for the first six months of Fiscal 2014 was a benefit of 27.0%, in part due to allocation to discontinued operations previously described as well as the reduction of our valuation allowance due to the acquisition of deferred tax liabilities as part of our acquisition of iTVX in August 2013.

#### Note 9. New Accounting Guidance

##### ASU 2014-09

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 supersedes nearly all existing revenue recognition guidance under US GAAP. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We are evaluating our existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods therein.

##### ASU 2014-08

In April 2014, the FASB issued ASU No. 2014-08, “Presentation of Financial Statements and Property, Plant, and Equipment” (“ASU 2014-08”). ASU 2014-08 amends the guidance related to reporting for discontinued operations. The amended guidance requires the assets and liabilities of a disposal group be separately presented in the asset and

liability sections, respectively, of the statement of financial position. ASU 2014-08 is effective for annual and interim periods for fiscal years beginning after December 15, 2014, and early adoption is permitted. We adopted the provisions of ASU 2014-08 effective as of March 31, 2014, and our adoption did not have a material impact on our financial position, results of operations or cash flows.

Table of Contents

Note 10. Subsequent Events

We have considered all events that have occurred subsequent to September 30, 2014 and through the date of this filing and, except as set forth below, determined that no additional disclosure is required.

On October 8, 2014, we entered into an asset purchase agreement to acquire the U.S. television measurement business of WPP's Kantar business unit (a unit of Competitive Media Reporting, LLC ("Seller"), an affiliate of WPP plc). The agreement consists of customer contracts and relationships in the U.S. television measurement market.

In consideration for the purchase, we agreed to assume specified liabilities of the Seller, and to issue 1,526,790 shares of our unregistered common stock. Based on the closing price of our common stock on October 8, 2014, the shares have an approximate value of \$98.5 million.

The closing of the asset purchase agreement is subject to customary regulatory approvals and is anticipated to be completed by the end of calendar 2014.

On October 8, 2014, we also entered into a stock purchase agreement with WPP Luxembourg Gamma Three S.à r.l., an affiliate of WPP plc ("WPP Luxembourg"). Pursuant to this agreement, we agreed to issue and sell to WPP Luxembourg, at the time of and contingent upon the closing of the asset purchase agreement, 948,834 shares of unregistered common stock in exchange for \$55.8 million in cash.

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 "could," "should," "plan," "depends on," "predict," "believe," "potential," "may," "will," "expects," "intends," "anticipate," "estimates" or "continues" or the negative thereof or variations thereon or comparable terminology. Forward-looking statements in this Quarterly Report on Form 10-Q include, in particular, statements regarding:

- the future growth prospects for our business as a whole and individual business lines in particular, including adding new clients, adjusting rates and increasing business activity, and using funds in our foreign bank accounts to fund our international expansion and growth;
- increases in our costs over the next twelve months;
- future acquisitions or investments;
- our plans or requirements to hold or sell our marketable securities, including shares of our unregistered common stock;
- our relationships with our customers and suppliers;
- our ability to attract new customers;
- market response to our products and services;
- increased spending on property and equipment in Fiscal 2015 for the capitalization of internally developed software, computer equipment and other purposes;
- expected amortization of our deferred rent;
- the sufficiency of our available sources of liquidity to fund our current operations, the continued current development of our business information services and other cash requirements through at least September 30, 2015; and
- the timing of the closing of our acquisition of the U.S. television measurement business of WPP's Kantar business unit.

These forward-looking statements involve known and unknown risks and uncertainties that may cause our results to be materially different from results implied by such forward-looking statements. These risks and uncertainties include, in no particular order, whether we will be able to:

- successfully develop, expand and/or market new services to new and existing customers, including our media measurement services, in order to increase revenue and/or create new revenue streams;
- timely acquire and integrate into our systems various third party databases;
- compete with companies that may have financial, marketing, sales, technical or other advantages over us;
- successfully deal with our data providers, who are much larger than us and have significant financial leverage over us;
- successfully manage the impact on our business of the economic environment generally, both domestic and international, and in the markets in which we operate, including the financial condition of any of our suppliers or customers or the impact of the economic environment on our suppliers' or customers' ability to continue their services with us and/or fulfill their payment obligations to us;
- effectively respond to rapidly changing technology and consumer demand for entertainment content in various media formats;
- manage and/or offset any cost increases;
- add new clients, retain existing clients or adjust rates for our services;
- adapt to government restrictions;
- leverage our investments in our systems and generate revenue and earnings streams that contribute to our overall success;
- enhance and expand the services we provide in our foreign locations and enter into additional foreign locations; and
- .

successfully integrate business acquisitions or other investments in other companies, products or technologies into our operations and use those acquisitions or investments to enhance our technical capabilities, expand our operations into new markets or otherwise grow our business.

Please refer to Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014 (“Fiscal 2014”) as filed with the Securities and Exchange Commission on June 6, 2014 for a discussion of reasons why our actual results may

## Table of Contents

differ materially from our forward-looking statements. Although we may elect to update forward-looking statements in the future, we specifically disclaim any obligation to do so, even if our expectations change.

### Business Overview

We are a global media measurement and information company serving the entertainment, television, video and advertising industries. Our Software as a Service (“SaaS”) technology merges television viewership information from over 100 million TVs and devices with consumer behavior and purchase information (“Advanced Demographics”) across multiple platforms, devices and distribution channels. We also measure box office results from more than 100,000 movie screens in 36 countries throughout the world. We process and aggregate hundreds of billions of data transactions from multiple screens wherever entertainment content is viewed, whether at the box office, on a television screen, over the internet or on a smart phone or other portable device. Rentrak measures live TV, recorded TV (“DVR”) and Video-On-Demand (“VOD”), whether the content is free, purchased, rented, recorded, downloaded or streamed from multiple channels. These massive content databases provide stable and granular viewership information across every screen (“multiscreen”) and are anonymously matched with third-party consumer segmentation and purchase databases using privacy compliant methodologies. By linking multiscreen viewership information with information about the products viewers consume and prefer, we provide our clients, such as content producers, distributors, advertisers and advertising agencies, with the knowledge necessary to more effectively manage their businesses, program and market their networks and more precisely target and sell their advertising inventory. The benefits to the advertising community are improvements in profitability by effectively targeting specific TV shows against the demographics of the products viewers buy, the cars viewers drive and how viewers are likely to vote in elections. The benefits to the movie industry and video (TV) content owners are that they can manage their businesses in real time or near real time and also improve their profitability. Additionally, certain clients use our databases to populate programmatic buying systems. These systems automate the buying process and introduce efficiencies for both advertising agencies and their clients.

Previously, we had two operating divisions within our corporate structure and we reported certain financial information by individual segment under this structure. Those two operating divisions were our Advanced Media and Information (“AMI”) operating division, which included our media measurement services, and our Home Entertainment operating division, which included our distribution services as well as services that measured, aggregated and reported consumer rental activity on film product from traditional “brick and mortar,” online and kiosk retailers.

During the fourth quarter of Fiscal 2014, we initiated our plan to sell our Pay Per Transaction® (“PPT”) business. Accordingly, we have restated our financial results and the PPT® business is reported as discontinued operations for all periods presented.

Our media measurement services are primarily delivered through scalable, SaaS products within our Entertainment Essentials™ lines of business. These syndicated big data services, offered primarily on a recurring subscription basis, provide consumer viewership information integrated with consumer segmentation and purchase behavior databases. We provide film studios, television networks and local stations, cable, satellite and telecommunications company (“telco”) operators, advertisers and advertising agencies unique insights into consumer viewing and purchasing patterns through our comprehensive and expansive information on local, national, VOD and “Over the Top” television performance and worldwide box office results. Our movie measurement business is a global business measuring more than 95% of the ticket sales globally in real or near real time, allowing for decisions to be made to market to, promote and manage the industry for maximum profitability.

### Our Products and Services

We provide media measurement business intelligence services across multiple screens and platforms delivered as SaaS. These services, offered primarily on a recurring subscription basis, are distributed to clients through patent pending software systems and business processes into two broad areas within the entertainment industry, which we



refer to as TV Everywhere<sup>™</sup> and Movies Everywhere.<sup>™</sup> Our systems capture total television audience information by providing the largest coverage from multiple screens and providers and merge that information with Advanced Demographics and information relating to actual consumer purchase behavior.

Typical customers utilizing our services include content producers, studios, distributors, national networks, local stations, satellite and cable operators, agencies, and a wide spectrum of advertisers, ranging from traditional consumer brands to various political groups. We also provide many of our clients tailored research and analytical solutions unique to their needs and specifications.

Our most significant lines of business, which we refer to as Entertainment Essentials<sup>™</sup> services, are:

• TV Everywhere,<sup>™</sup> which includes TV Essentials<sup>®</sup> and StationView Essentials,<sup>™</sup>

• Movies Everywhere,<sup>™</sup> which includes domestic and international Box Office Essentials<sup>®</sup>, PostTrak<sup>®</sup> and PreAct,<sup>™</sup>

Table of Contents

OnDemand Everywhere<sup>®</sup>, which includes OnDemand Essentials<sup>®</sup> and “Over the Top” measurement products and related products; and

Other services, which includes our Studio Direct Revenue Sharing (“DRS”) and other products relating to content in the home video rental industry.

In August 2013, we acquired iTVX, a provider of branded entertainment analytics, insight and research. The financial results of iTVX, from the date of acquisition, are included within our TV Everywhere<sup>™</sup> lines of business.

## Results of Operations

Our results are as follows (dollars in thousands):

|  | Three Months Ended September 30, <sup>(1)</sup> |              |          |              | Six Months Ended September 30, <sup>(1)</sup> |              |            |              |
|--|---|--------------|----------|--------------|---|--------------|------------|--------------|
|  | 2014  |              | 2013     |              | 2014  |              | 2013       |              |
|  | Dollars   | % of revenue | Dollars  | % of revenue | Dollars                                       | % of revenue | Dollars    | % of revenue |
| Revenue  | \$25,241  | 100.0 %      | \$17,843 | 100 %        | \$47,585                                      | 100.0 %      | \$34,525   | 100.0 %      |
| Cost of revenue <sup>(2)</sup>   | 8,040   | 31.9         | 6,829    | 38.3         | 15,644  | 32.9         | 13,118     | 38.0         |
| Gross margin   | 17,201  | 68.1         | 11,014   | 61.7         | 31,941  | 67.1         | 21,407     | 62.0         |
| Operating expenses:  |   |              |          |              |   |              |            |              |
| Selling, general and administrative <sup>(2)(3)</sup>                      | 14,544  | 57.6         | 11,332   | 63.5         | 27,378  | 57.5         | 22,186     | 64.3         |
| Research, technology and innovation <sup>(2)(3)</sup>                      | 3,073   | 12.2         | 2,121    | 11.9         | 6,337   | 13.3         | 3,991      | 11.6         |
| Total operating expenses   | 17,617  | 69.8         | 13,453   | 75.4         | 33,715  | 70.9         | 26,177     | 75.8         |
| Loss from continuing operations  | (416 )  | (1.6 )       | (2,439 ) | (13.7 )      | (1,774 )                                      | (3.7 )       | (4,770 )   | (13.8 )      |
| Other income, net  | 20  | 0.1          | 44       | 0.2          | 40  | 0.1          | 91         | 0.3          |
| Loss from continuing operations before income taxes                        | (396 )  | (1.6 )       | (2,395 ) | (13.4 )      | (1,734 )                                      | (3.6 )       | (4,679 )   | (13.6 )      |
| Provision (benefit) for income taxes                                       | 337   | 1.3          | (937 )   | (5.3 )       | 365   | 0.8          | (1,262 )   | (3.7 )       |
| Loss from continuing operations, net of income taxes                       | (733 )  | (2.9 )       | (1,458 ) | (8.2 )       | (2,099 )                                      | (4.4 )       | (3,417 )   | (9.9 )       |
| Income from discontinued operations, net of income taxes <sup>(2)(3)</sup> | 308   | 1.2          | 802      | 4.5          | 655   | 1.4          | 1,563      | 4.5          |
| Net loss   | (425 )  | (1.7 )       | (656 )   | (3.7 )       | (1,444 )                                      | (3.0 )       | (1,854 )   | (5.4 )       |
| Net loss attributable to noncontrolling interest                           | (51 )   | (0.2 )       | (22 )    | (0.1 )       | (104 )  | (0.2 )       | (29 )      | (0.1 )       |
| Net loss attributable to Rentrak Corporation                               | \$(374 )  | (1.5 )%      | \$(634 ) | (3.6 )%      | \$(1,340 )                                    | (2.8 )%      | \$(1,825 ) | (5.3 )%      |

(1) Percentages may not sum due to rounding. All prior periods presented have been restated as a result of reporting our PPT<sup>®</sup> business as discontinued operations. See Note 3 of Notes to Condensed Consolidated Financial Statements.

(2) Depreciation and amortization expense is included in the line items above as follows:

|                                     |       |       |         |         |
|-------------------------------------|-------|-------|---------|---------|
| Cost of revenue                     | \$991 | \$796 | \$1,874 | \$1,579 |
| Selling, general and administrative | 559   | 496   | 1,116   | 957     |
| Research, technology and innovation | 195   | 155   | 410     | 288     |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Net income from discontinued operations | 38      | 42      | 78      | 82      |
|   | \$1,783 | \$1,489 | \$3,478 | \$2,906 |

(3) Stock-based compensation expense is included in the line items above as follows:

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Selling, general and administrative     | \$1,828 | \$1,084 | \$3,289 | \$2,248 |
| iTVX contingent consideration           | 600     | 800     | 100     | 800     |
| Research, technology and innovation     | 244     | 156     | 473     | 297     |
|   | 2,672   | 2,040   | 3,862   | 3,345   |
| Net income from discontinued operations | 103     | 95      | 206     | 189     |
|   | \$2,775 | \$2,135 | \$4,068 | \$3,534 |

Table of Contents

## Revenue

Revenue increased \$7.4 million, or 41.5%, to \$25.2 million in the second quarter of Fiscal 2015 compared to \$17.8 million in the second quarter of Fiscal 2014. Revenue increased \$13.1 million, or 37.8%, to \$47.6 million in the six month period ended September 30, 2014 compared to \$34.5 million in the six month period ended September 30, 2013. These fluctuations are described in more detail below.

Revenue information is as follows (dollars in thousands):

|                      | Three Months Ended September |          | Dollar<br>Change | % Change |
|----------------------|------------------------------|----------|------------------|----------|
|                      | 30,<br>2014                  | 2013     |                  |          |
| TV Everywhere™       | \$13,320                     | \$7,215  | \$6,105          | 84.6%    |
| Movies Everywhere™   | 7,373                        | 6,344    | 1,029            | 16.2%    |
| OnDemand Everywhere® | 3,341                        | 3,157    | 184              | 5.8%     |
| Other services       | 1,207                        | 1,127    | 80               | 7.1%     |
|                      | \$25,241                     | \$17,843 | \$7,398          | 41.5%    |

  

|                      | Six Months Ended September |          | Dollar<br>Change | % Change |
|----------------------|----------------------------|----------|------------------|----------|
|                      | 30,<br>2014                | 2013     |                  |          |
| TV Everywhere™       | \$23,826                   | \$12,912 | \$10,914         | 84.5%    |
| Movies Everywhere™   | 14,766                     | 12,805   | 1,961            | 15.3%    |
| OnDemand Everywhere® | 6,589                      | 6,473    | 116              | 1.8%     |
| Other services       | 2,404                      | 2,335    | 69               | 3.0%     |
|                      | \$47,585                   | \$34,525 | \$13,060         | 37.8%    |

The increases in TV Everywhere™ revenue in the Fiscal 2015 periods were primarily due to the addition of new clients, sales of new services, custom reports and rate increases for existing clients.

The increases in Movies Everywhere™ revenue in the Fiscal 2015 periods were primarily due to rate increases for existing clients, sales of new services and the addition of new clients.

The increases in OnDemand Everywhere® revenue in Fiscal 2015 periods were primarily due to rate increases for existing clients.

Other services primarily includes DRS revenue and measurement services relating to physical content in the home video rental industry. The increases in revenue in the Fiscal 2015 periods were primarily due to rate increases for existing clients as well as an increase in home video rental transactions.

## Cost of Revenue and Gross Margin

Cost of revenue includes direct costs relating to our Entertainment Essentials™ services, and consists of costs associated with the operation of a call center for our Movies Everywhere™ services, as well as costs associated with amortizing capitalized, internally developed software used to provide the corresponding services and direct costs incurred to obtain and process data and maintain our systems.

Cost of revenue increased \$1.2 million, or 17.7%, to \$8.0 million in the second quarter of Fiscal 2015 compared to \$6.8 million in the second quarter of Fiscal 2014. Cost of revenue increased \$2.5 million, or 19.3%, to \$15.6 million in the first six months of Fiscal 2015 compared to \$13.1 million in the first six months of Fiscal 2014.



Table of Contents

Cost of revenue information is as follows (dollars in thousands):

|   | Three Months Ended September |          | Dollar<br>Change | % Change |
|---|------------------------------|----------|------------------|----------|
|   | 30,<br>2014                  | 2013     |                  |          |
| Costs related to:                             |                              |          |                  |          |
| Amortization of internally developed software | \$991                        | \$796    | \$195            | 24.5%    |
| Call center operation                         | 1,410                        | 1,334    | 76               | 5.7%     |
| Obtaining and processing data                 | 5,639                        | 4,699    | 940              | 20.0%    |
|   | \$8,040                      | \$6,829  | \$1,211          | 17.7%    |
|   |                              |          |                  |          |
|   | Six Months Ended September   |          | Dollar<br>Change | % Change |
|   | 30,<br>2014                  | 2013     |                  |          |
| Costs related to:                             |                              |          |                  |          |
| Amortization of internally developed software | \$1,874                      | \$1,579  | \$295            | 18.7%    |
| Call center operation                         | 2,882                        | 2,735    | 147              | 5.4%     |
| Obtaining and processing data                 | 10,888                       | 8,804    | 2,084            | 23.7%    |
|   | \$15,644                     | \$13,118 | \$2,526          | 19.3%    |

The increases in cost of revenue in the Fiscal 2015 periods compared to the same periods of Fiscal 2014 resulted primarily from expanding household coverage with existing data supplier agreements, and the addition of new data supplier agreements.

Gross margin as a percentage of revenue was as follows:

|              | Three Months Ended |       | Six Months Ended |       |
|--------------|--------------------|-------|------------------|-------|
|              | September 30,      |       | September 30,    |       |
|              | 2014               | 2013  | 2014             | 2013  |
| Gross margin | 68.1%              | 61.7% | 67.1%            | 62.0% |

The costs associated with our existing data supplier agreements are largely fixed. This, coupled with the increases in revenue noted above, resulted in improvements in gross margin in the Fiscal 2015 periods compared to the same periods of Fiscal 2014.

#### Operating Expenses

Operating expenses consist primarily of compensation and benefits, information technology, development, innovation and analytics, marketing and advertising costs, legal and professional fees, communications costs, depreciation and amortization of tangible and intangible assets and software, real and personal property leases, as well as other general corporate expenses.

Table of Contents

Operating expense information is as follows (dollars in thousands):

|   | Three Months Ended September |          | Dollar<br>Change | % Change |
|---|------------------------------|----------|------------------|----------|
|   | 30,<br>2014                  | 2013     |                  |          |
| Operating expenses                      |                              |          |                  |          |
| Entertainment Essentials™               | \$10,115                     | \$7,823  | \$2,292          | 29.3%    |
| Research, technology and innovation     | 3,073                        | 2,121    | 952              | 44.9%    |
| Stock-based compensation costs for iTVX | 600                          | 800      | (200)            | (25.0)%  |
| Corporate                               | 3,829                        | 2,709    | 1,120            | 41.3%    |
|   | \$17,617                     | \$13,453 | \$4,164          | 31.0%    |
|   |                              |          |                  |          |
|   | Six Months Ended September   |          | Dollar<br>Change | % Change |
|   | 30,<br>2014                  | 2013     |                  |          |
| Operating expenses                      |                              |          |                  |          |
| Entertainment Essentials™               | \$19,778                     | \$15,621 | \$4,157          | 26.6%    |
| Research, technology and innovation     | 6,337                        | 3,991    | 2,346            | 58.8%    |
| Stock-based compensation costs for iTVX | 100                          | 800      | (700)            | (87.5)%  |
| Corporate                               | 7,500                        | 5,765    | 1,735            | 30.1%    |
|   | \$33,715                     | \$26,177 | \$7,538          | 28.8%    |

**Entertainment Essentials™**

The increases in operating expenses for our Entertainment Essentials™ Services groups in the Fiscal 2015 periods compared to the same periods of Fiscal 2014 were primarily due to increased headcount in our sales and client services groups, as well as operating costs relating to iTVX, which was acquired in August 2013.

Our long-term strategic plan is heavily focused on the development, growth and expansion of our Entertainment Essentials™ Services, both domestically and internationally, and we consider these expenses to be investments which will help us leverage our growth longer term.

**Research, Technology and Innovation**

We are making significant investments in our systems which support our existing service lines, as well as products which are in the planning phases. We continue to add new data providers, integrate various third-party segmentation databases with our data and build our analytic capabilities. The increases in these costs relate to additional headcount, as well as increased costs relating to our systems. Additionally, we are incurring costs associated with our Media Rating Council (“MRC”) accreditation process. These expenditures will likely increase our costs over the next twelve months. We believe we will be able to leverage these investments and generate revenue and earnings streams that will contribute to our overall success.

**Stock-based compensation costs for iTVX**

Our acquisition of iTVX in August 2013 included contingent consideration, which, if earned, will be paid in January 2016. Changes in the fair value of contingent consideration arrangements are recorded as income or expense in our Condensed Consolidated Statements of Operations. For the three and six month periods ended September 30, 2014, the fair value of the estimated contingent consideration arrangement increased by \$0.6 million and \$0.1 million, respectively, compared to the fair value as of March 31, 2014. The increases were a result of an increase in the value of our common stock price. The common stock portion of the contingent consideration arrangement has a fixed price of \$21.795 per share, and any fluctuation in our common stock price above or below this amount will affect the fair value of the payment and our results of operations.

**Corporate**

The increases in Corporate expenses in the Fiscal 2015 periods compared to the same periods of Fiscal 2014 were primarily due to increases in stock-based compensation and higher bonus accruals.

#### Income Taxes

Our effective tax rates are determined by excluding certain jurisdictions with net losses. Our tax provision for the first six months of Fiscal 2015 was 21.0% due to the effect of intraperiod allocations to discontinued operations. Without this allocation, the provision would have been substantially offset by net operating losses and the valuation allowance on deferred taxes.



Table of Contents

Our effective tax rate for the first six months of Fiscal 2014 was a benefit of 27.0%, in part due to allocation to discontinued operations previously described as well as the reduction of our valuation allowance due to the acquisition of deferred tax liabilities as part of our acquisition of iTVX in August 2013.

Income from Discontinued Operations, net of income taxes

Income from discontinued operations, net of income taxes, includes the results of our PPT® line of business, and is as follows (dollars in thousands):

|  | Three Months Ended September 30, |        | Dollar Change | % Change  |
|--|----------------------------------|--------|---------------|-----------|
|  | 2014                             | 2013   |               |           |
| Income from discontinued operations, net of income taxes | \$ 308                           | \$ 802 | \$ (494       | ) (61.6)% |

  

|  | Six Months Ended September 30, |          | Dollar Change | % Change  |
|--|--------------------------------|----------|---------------|-----------|
|  | 2014                           | 2013     |               |           |
| Income from discontinued operations, net of income taxes | \$ 655                         | \$ 1,563 | \$ (908       | ) (58.1)% |

The decreases in income from discontinued operations, net of income taxes, in the Fiscal 2015 periods compared to the same periods of Fiscal 2014 were primarily due to the continued decline in physical DVD rental transactions from retail stores as well as the exit of Blockbuster from the market in January 2014.

#### Net Loss to Adjusted EBITDA Reconciliation

We define Adjusted EBITDA as earnings before interest, taxes, depreciation, amortization, stock-based compensation expense and other expenses which we consider non-recurring in nature. We believe that Adjusted EBITDA is helpful as an indicator of the current financial performance of our company and our capacity to operationally fund capital expenditures and working capital requirements. Due to the nature of our internally developed software which supports our Essentials® services and our use of stock-based compensation, we incur significant non-cash charges for depreciation, amortization and stock-based compensation expense that may not be indicative of our operating performance from a cash perspective. We also adjust for acquisition and non-recurring costs as we believe this provides a useful metric by which to compare performance from period to period.

Adjusted EBITDA does not represent cash flows from operations as defined by GAAP, is not derived in accordance with GAAP and should not be considered as an alternative to net loss (the most comparable GAAP financial measure to Adjusted EBITDA).

The table below presents a reconciliation from net loss to Adjusted EBITDA (dollars in thousands):

|  | Three Months Ended September 30, |          | Six Months Ended September 30, |            |
|--|----------------------------------|----------|--------------------------------|------------|
|  | 2014                             | 2013     | 2014                           | 2013       |
| Net loss attributable to Rentrak Corporation             | \$(374                           | ) \$(634 | ) \$(1,340                     | ) \$(1,825 |
| Income from discontinued operations, net of income taxes | (308                             | ) (802   | ) (655                         | ) (1,563   |
| Adjustments:   |                                  |          |                                |            |
| iTVX stock-based compensation                            | 600                              | 800      | 100                            | 800        |
| Acquisition costs  | 270                              | 106      | 316                            | 190        |
|  | 2,072                            | 1,240    | 3,762                          | 2,545      |

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Stock-based compensation from continuing operations

|  |         |         |         |         |   |
|--|---------|---------|---------|---------|---|
| Income tax provision (benefit)                           | 337     | (937    | ) 365   | (1,262  | ) |
| Investment income, net                                   | (40     | ) (46   | ) (101  | ) (93   | ) |
| Depreciation and amortization from continuing operations | 1,745   | 1,447   | 3,400   | 2,824   |   |
| Adjusted EBITDA  | \$4,302 | \$1,174 | \$5,847 | \$1,616 |   |

Adjusted EBITDA increased \$3.1 million and \$4.2 million in the three and six months ended September 30, 2014, respectively, compared to same period of the prior year primarily due to the respective increases in revenue.

Table of Contents

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 ability to borrow on 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 September 30, 2015.

Cash and cash equivalents and marketable securities increased \$1.3 million to \$23.3 million at September 30, 2014 from March 31, 2014. This increase resulted primarily from \$6.1 million provided by operating activities and \$0.8 million related to the issuance of our common stock, partially offset by \$5.3 million used for the purchase of equipment and capitalized information technology costs. Portions of our cash and cash equivalents are held in our foreign subsidiaries. In the event we repatriate these earnings, the earnings may be subject to United States federal, state and foreign income taxes. As of September 30, 2014, we had \$3.5 million in foreign bank accounts which we plan to use to fund our international expansion and growth.

We had \$18.8 million invested in a fixed-income security fund as of September 30, 2014. Fund values fluctuate in response to the financial condition of individual issues, general market and economic conditions and changes in interest rates. In general, when interest rates rise, security fund values fall and investors may lose principal value. While we currently have no plans or requirements to sell the securities in the foreseeable future, we are exposed to market risks and cannot predict what impact fluctuations in the market may have on the value of these funds.

Accounts receivable, net of allowances, increased \$2.7 million to \$14.9 million at September 30, 2014 from March 31, 2014, primarily due to the increase in revenue in the second quarter of Fiscal 2015 compared to the fourth quarter of Fiscal 2014.

During the first six months of Fiscal 2015, we spent \$5.3 million on property and equipment, including \$3.6 million for the capitalization of internally developed software for our business information service offerings. We anticipate spending a total of approximately \$10.4 million in Fiscal 2015 on property and equipment, of which approximately \$7.2 million is for the capitalization of internally developed software, primarily for the development of systems for our Entertainment Essentials™ lines of business. The remaining amounts include purchases of computers, servers and networking equipment.

Accrued data provider liabilities increased \$4.0 million to \$8.5 million at September 30, 2014 from March 31, 2014, primarily due to increased expenses incurred related to our data suppliers and the addition of new data suppliers.

Accrued compensation decreased \$1.3 million to \$5.4 million at September 30, 2014 from March 31, 2014, primarily due to a \$1.5 million decrease in our bonus accrual related to Fiscal 2014 bonuses which were paid during the first quarter of Fiscal 2015, partially offset by a \$0.1 million increase in the accrual for contingent consideration associated with our acquisition of iTVX.

Deferred revenue and other credits increased \$0.8 million to \$3.4 million at September 30, 2014 from March 31, 2014, primarily due to the increase in revenue as the balance includes amounts related to quarterly and annual subscriptions for our services, as well as the current portion of our deferred rent credits.

Deferred rent of \$2.6 million at September 30, 2014, which includes both the current and long-term portion, represents amounts received for qualified renovations to our corporate headquarters and our offices in New York and Portland, as well as free rent for a portion of the lease terms. The deferred rent related to qualified renovations is being amortized against rent expense over the remaining lease terms, which extend through June 30, 2023, at the rate of approximately \$54,000 per quarter. The deferred rent related to free rent is also being amortized against rent expense over the

remaining lease terms and is expected to be approximately \$13,000 per quarter for Fiscal 2015.

We currently have a revolving line of credit for \$15.0 million that matures December 1, 2014. Interest accrues on outstanding balances under the line of credit at a rate equal to LIBOR plus 2.0% per annum, and we incur fees on the unused portion at a rate of 0.2% per annum. The credit line is secured by substantially all of our assets. At September 30, 2014, issued and outstanding letters of credit of \$0.3 million were reserved against the line of credit and we had no outstanding borrowings under this agreement. The agreement contains certain liquidity, asset and financial covenants and, as of September 30, 2014, we were in compliance with those covenants.

Table of Contents

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies and Estimates

We reaffirm the critical accounting policies and estimates as reported in our Fiscal 2014 Annual Report on Form 10-K.

New Accounting Guidance

See Note 9 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 2014 Annual Report on Form 10-K.

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, Chief Financial Officer and our Principal Accounting 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, Chief Financial Officer and our Principal Accounting 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, Chief Financial Officer and our Principal Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

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 Fiscal 2014 Annual Report on Form 10-K includes a detailed discussion of our risk factors. There have been no material changes from the risk factors previously disclosed in our Fiscal 2014 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 2014 Annual Report on Form 10-K.

## ITEM 6. EXHIBITS

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

| Exhibit Number | Exhibit Description   | Incorporated by Reference |             |         | Filing Date | Filed Herewith |
|----------------|---|---------------------------|-------------|---------|-------------|----------------|
|                |   | Form                      | File Number | Exhibit |             |                |
| 3.1            | Restated Articles of Incorporation of Rentrak Corporation, as amended                           | S-8                       | 333-199747  | 3.1     | 10/31/14    |                |
| 10.1           | Fourth Amendment to Employment Agreement with William P. Livek, effective as of July 25, 2014.  | 10-Q                      | 000-15159   | 10.1    | 8/7/14      |                |
| 10.2           | Fourth Amendment to Employment Agreement with David I. Chemerow, effective as of July 25, 2014. | 10-Q                      | 000-15159   | 10.2    | 8/7/14      |                |
| 10.3           | Amended Rentrak Corporation 2011 Employee Stock Purchase Plan                                   |                           |             |         |             | X              |
| 31.1           | Certification of Chief Executive Officer pursuant to Rule 13a-14(a).                            |                           |             |         |             | X              |
| 31.2           | Certification of Chief Financial Officer pursuant to Rule 13a-14(a).                            |                           |             |         |             | X              |
| 31.3           | Certification of Principal Accounting Officer pursuant to Rule 13a-14(a).                       |                           |             |         |             | X              |
| 32.1           | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.                    |                           |             |         |             | X              |
| 32.2           | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.                    |                           |             |         |             | X              |
| 32.3           | Certification of Principal Accounting Officer pursuant to 18 U.S.C. Section 1350.               |                           |             |         |             | X              |
| 101.INS        | XBRL Instance Document.   |                           |             |         |             | X              |
| 101.SCH        | XBRL Taxonomy Extension Schema Document.  |                           |             |         |             | X              |

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|         |   |   |
|---------|---|---|
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.  | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.   | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.        | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. | X |

22

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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: November 6, 2014

RENTRAK CORPORATION

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