

RENTRAK CORP
Form 10-Q
February 06, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 000-15159

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

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

7700 NE Ambassador Place, 97220
Portland, Oregon (Zip Code)

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

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

Edgar Filing: RENTRAK CORP - Form 10-Q

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)

12,103,315
(Outstanding at February 3, 2014)

RENTRAK CORPORATION
FORM 10-Q
INDEX

| | Page |
|---|-----------|
| PART I - FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| <u>Condensed Consolidated Balance Sheets - December 31, 2013 and March 31, 2013 (unaudited)</u> | <u>2</u> |
| <u>Condensed Consolidated Statements of Operations - Three and Nine Months Ended December 31, 2013 and 2012 (unaudited)</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Comprehensive Loss - Three and Nine Months Ended December 31, 2013 and 2012 (unaudited)</u> | <u>4</u> |
| <u>Condensed Consolidated Statements of Cash Flows - Nine Months Ended December 31, 2013 and 2012 (unaudited)</u> | <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>12</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>21</u> |
| Item 4. <u>Controls and Procedures</u> | <u>22</u> |
| <u>PART II - OTHER INFORMATION</u> | |
| Item 1A. <u>Risk Factors</u> | <u>23</u> |
| Item 6. <u>Exhibits</u> | <u>23</u> |
| <u>Signature</u> | <u>24</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)

| | December 31, 2013 | March 31, 2013 |
|---|----------------------|-------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$5,225 | \$3,835 |
| Marketable securities | 21,651 | 16,588 |
| Accounts and notes receivable, net of allowances for doubtful accounts of \$414 and \$866 | 15,460 | 16,682 |
| Taxes receivable and prepaid taxes | 237 | — |
| Other current assets | 2,539 | 2,188 |
| Total Current Assets | 45,112 | 39,293 |
| Property and equipment, net of accumulated depreciation of \$23,620 and \$19,925 | 16,757 | 14,262 |
| Goodwill | 7,024 | 4,998 |
| Other intangible assets, net of accumulated amortization of \$3,177 and \$2,343 | 12,941 | 12,396 |
| Other assets | 716 | 830 |
| Total Assets | \$82,550 | \$71,779 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$6,355 | \$5,856 |
| Accrued liabilities | 403 | 910 |
| Accrued data provider liabilities | 8,025 | 3,459 |
| Accrued compensation | 9,045 | 5,862 |
| Deferred tax liabilities | 46 | 36 |
| Deferred revenue and other credits | 1,940 | 2,610 |
| Total Current Liabilities | 25,814 | 18,733 |
| Deferred rent, long-term portion | 2,450 | 2,238 |
| Taxes payable, long-term | 517 | 713 |
| Deferred tax liability, long-term | 799 | 574 |
| Note payable and accrued interest | — | 550 |
| Total Liabilities | 29,580 | 22,808 |
| Commitments and Contingencies | — | — |
| Stockholders' Equity: | | |
| Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued | — | — |
| Common stock, \$0.001 par value; 30,000 shares authorized; shares issued and outstanding: 12,048 and 11,892 | 12 | 12 |
| Capital in excess of par value | 81,427 | 75,508 |
| Accumulated other comprehensive income | 331 | 31 |
| Accumulated deficit | (29,737 |) (27,569 |
| Stockholders' Equity attributable to Rentrak Corporation | 52,033 | 47,982 |
| Noncontrolling interest | 937 | 989 |
| Total Stockholders' Equity | 52,970 | 48,971 |
| Total Liabilities and Stockholders' Equity | \$82,550 | \$71,779 |
| See accompanying Notes to Condensed Consolidated Financial Statements. | | |

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 Nine Months Ended | | |
|---|----------------------------|-----------|---------------------------|------------|---|
| | December 31, | | December 31, | | |
| | 2013 | 2012 | 2013 | 2012 | |
| Revenue | \$31,609 | \$24,948 | \$89,926 | \$70,662 | |
| Cost of sales | 16,458 | 13,847 | 48,013 | 37,343 | |
| Gross margin | 15,151 | 11,101 | 41,913 | 33,319 | |
| Operating expenses: | | | | | |
| Selling and administrative | 15,846 | 12,870 | 44,683 | 54,150 | |
| Loss from operations | (695) | (1,769) | (2,770) | (20,831) |) |
| Other income: | | | | | |
| Interest income, net | 53 | 41 | 144 | 390 | |
| Loss before income taxes | (642) | (1,728) | (2,626) | (20,441) |) |
| Provision (benefit) for income taxes | (276) | 117 | (406) | 179 |) |
| Net loss | (366) | (1,845) | (2,220) | (20,620) |) |
| Net loss attributable to noncontrolling interest | (23) | (31) | (52) | (31) |) |
| Net loss attributable to Rentrak Corporation | \$(343) | \$(1,814) | \$(2,168) | \$(20,589) |) |
| Net loss per share attributable to Rentrak Corporation common stockholders: | | | | | |
| Basic | \$(0.03) | \$(0.15) | \$(0.18) | \$(1.77) |) |
| Diluted | \$(0.03) | \$(0.15) | \$(0.18) | \$(1.77) |) |
| Shares used in per share calculations: | | | | | |
| Basic | 12,181 | 11,996 | 12,116 | 11,634 | |
| Diluted | 12,181 | 11,996 | 12,116 | 11,634 | |

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 Nine Months | |
|--|----------------------------|-------------|---------------------|--------------|
| | December 31, | | Ended December 31, | |
| | 2013 | 2012 | 2013 | 2012 |
| Net loss | \$ (366 |) \$ (1,845 |) \$ (2,220 |) \$ (20,620 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | 77 | 93 | 372 | (6 |
| Unrealized holding gains (losses) which arose during the period on available-for-sale securities ⁽¹⁾ | 19 | (28 |) (74 |) 33 |
| Recognition of previously unrealized (gains) losses on available-for-sale securities included in net loss ⁽²⁾ | — | (2 |) 2 | (113 |
| Other comprehensive income (loss) | 96 | 63 | 300 | (86 |
| Comprehensive loss | (270 |) (1,782 |) (1,920 |) (20,706 |
| Comprehensive loss attributable to noncontrolling interest | (23 |) (31 |) (52 |) (31 |
| Comprehensive loss attributable to Rentrak Corporation | \$ (247 |) \$ (1,751 |) \$ (1,868 |) \$ (20,675 |

(1) For the three months ended December 31, 2013 and 2012, the amounts are net of deferred taxes of zero and \$15,000, respectively, and for the nine months ended December 31, 2013 and 2012, the amounts are net of deferred taxes of zero and \$(30,000), respectively.

(2) For the three months ended December 31, 2013 and 2012, the amounts are net of deferred tax benefit of zero and \$(2,000), respectively, and for the nine months ended December 31, 2013 and 2012, the amounts are net of deferred tax benefit of zero and \$(83,000), respectively.

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 Nine Months Ended December 31, | |
|---|---|------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net loss | \$(2,220) | \$(20,620) |
| Adjustments to reconcile net loss to net cash flows provided by operating activities: | | |
| Depreciation and amortization | 4,449 | 3,607 |
| Stock-based compensation | 5,376 | 17,781 |
| Deferred income taxes | (62) | (3) |
| Gain on disposition of assets | — | (26) |
| Realized (gain) loss on marketable securities | 2 | (196) |
| Interest on note payable | — | 19 |
| Adjustment to allowance for doubtful accounts | (452) | 63 |
| (Increase) decrease, net of effect of acquisition, in: | | |
| Accounts and notes receivable | 1,222 | 1,906 |
| Taxes receivable and prepaid taxes | (237) | — |
| Other assets | (809) | (291) |
| Increase (decrease), net of effect of acquisition, in: | | |
| Accounts payable | 329 | 1,185 |
| Taxes payable | (196) | (78) |
| Accrued liabilities and compensation | 4,142 | (1,918) |
| Deferred revenue | (761) | (178) |
| Deferred rent | 254 | (148) |
| Net cash provided by operating activities | 11,037 | 1,103 |
| Cash flows from investing activities: | | |
| Purchase of marketable securities | (6,137) | (22,987) |
| Sale of marketable securities | 1,000 | 23,793 |
| Proceeds from the sale of assets | — | 47 |
| Payments made to develop intangible assets | (104) | (113) |
| Purchase of property and equipment | (5,757) | (4,304) |
| Cash paid for acquisition, net of cash acquired, and equity investment | (372) | — |
| Net cash used in investing activities | (11,370) | (3,564) |
| Cash flows from financing activities: | | |
| Contributions from noncontrolling interest | — | 1,020 |
| Issuance of common stock | 1,479 | 551 |
| Net cash provided by financing activities | 1,479 | 1,571 |
| Effect of foreign exchange translation on cash | 244 | 49 |
| Increase (decrease) in cash and cash equivalents | 1,390 | (841) |
| Cash and cash equivalents: | | |
| Beginning of period | 3,835 | 5,526 |
| End of period | \$5,225 | \$4,685 |
| Supplemental non-cash information: | | |
| Capitalized stock-based compensation | \$870 | \$348 |
| Common stock used to pay for option exercises | 199 | — |

Edgar Filing: RENTRAK CORP - Form 10-Q

| | | |
|--|-------|---|
| Common stock used to pay for taxes associated with vested restricted stock units | 1,046 | — |
| 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. | | |

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 nine month periods ended December 31, 2013 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2014 (“Fiscal 2014”). The Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes thereto included in our 2013 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 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 (“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 \$0.9 million as of December 31, 2013, are reported as a noncontrolling interest in our Condensed Consolidated Balance Sheets. The noncontrolling party’s share of the expenses for the three and nine months ended December 31, 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 December 31, 2013 | | Nine Months Ended December 31, 2013 | |
|--|--------------------------------------|--------|-------------------------------------|--------|
| Basic EPS: | | | | |
| Weighted average number of shares of common stock outstanding and vested deferred stock units (“DSUs”) | 12,181 | 11,996 | 12,116 | 11,634 |
| Diluted EPS: | | | | |
| Effect of dilutive stock options and unvested DSUs | — | — | — | — |
| | 12,181 | 11,996 | 12,116 | 11,634 |
| | 2,917 | 2,851 | 2,917 | 2,851 |

| | | | | |
|--|-----|-----|-----|-----|
| Total outstanding options not included in diluted EPS as they would be antidilutive | | | | |
| Performance and market-based grants not included in diluted EPS | 160 | 270 | 160 | 270 |

Includes 184,458 and 151,554 vested cumulative DSUs, respectively, for the three months ended December 31, 2013 and 2012 and 177,648 and 138,838 vested cumulative DSUs, respectively, for the nine months ended
(1) December 31, 2013 and 2012, in each case, that will not be issued until the directors holding the DSUs retire from our Board of Directors.

Table of Contents

Note 3. Business Segments and Enterprise-Wide Disclosures

We operate in two business segments, our Advanced Media and Information (“AMI”) Division and our Home Entertainment (“HE”) Division, and, accordingly, we report certain financial information by individual segment under this structure. The AMI Division manages our media measurement services offered through our Entertainment Essentials™ systems primarily on a recurring subscription basis. The HE Division manages our business operations that deliver home entertainment content products and related rental and sales information for that content to our Pay-Per-Transaction® (“PPT”) System retailers (“Participating Retailers”) on a revenue sharing basis. The HE Division also includes Studio Direct Revenue Sharing (“DRS”) services, which collects, tracks, audits and reports transactions and revenue data generated by DRS retailers, such as Netflix and Redbox, to studios.

Assets are not specifically identified by segment as the information is not used by the chief operating decision maker to measure segment performance. Corporate and other expenses not allocated to a specific segment are included as “Other” in the table below.

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

| | AMI | HE | Other | Total |
|--------------------------------------|-----------|-----------|---------|-------------|
| Three Months Ended December 31, 2013 | | | | |
| Sales to external customers | \$ 18,510 | \$ 13,099 | \$— | \$ 31,609 |
| Gross margin | 11,690 | 3,461 | — | 15,151 |
| Income (loss) from operations | 2,841 | 2,124 | (5,660 |) (695) |
| Three Months Ended December 31, 2012 | | | | |
| Sales to external customers | \$ 13,712 | \$ 11,236 | \$— | \$ 24,948 |
| Gross margin | 8,210 | 2,891 | — | 11,101 |
| Income (loss) from operations | 1,194 | 1,523 | (4,486 |) (1,769) |
| Nine Months ended December 31, 2013 | | | | |
| Sales to external customers | \$ 51,229 | \$ 38,697 | \$— | \$ 89,926 |
| Gross margin | 31,291 | 10,622 | — | 41,913 |
| Income (loss) from operations | 6,210 | 6,557 | (15,537 |) (2,770) |
| Nine Months ended December 31, 2012 | | | | |
| Sales to external customers | \$ 39,553 | \$ 31,109 | \$— | \$ 70,662 |
| Gross margin | 24,291 | 9,028 | — | 33,319 |
| Income (loss) from operations | (12,555 |) 5,016 | (13,292 |) (20,831) |

Table of Contents

Note 4. Stock-Based Compensation

The following table summarizes our stock based grants:

| | Three Months Ended December 31, 2013 | Nine Months Ended December 31, 2013 |
|---|---|--|
| Option grant: | | |
| Shares granted from 2011 Incentive Plan to non-executive director | — | 11,625 |
| Fair market value on date of grant | \$— | \$23.12 |
| Expiration period, in years | | 10 |
| Vesting period, in years | | 1 |
| Compensation information related to option granted in period ⁽¹⁾ (in thousands): | | |
| Total valuation, recognized over vesting period | \$— | \$100 |
| Total expected expense to be recognized in Fiscal 2014 | \$— | \$64 |
| Expense recognized as a component of selling and administrative expense | \$27 | \$36 |
| Restricted Stock (“RSU”) grants: | | |
| Units granted from 2011 Incentive Plan | 108,275 | 115,355 |
| Vesting period, in years - high ⁽²⁾ | 5 | 5 |
| Vesting period, in years - low ⁽³⁾ | 1 | 1 |
| Compensation information related to RSUs granted in period (in thousands): | | |
| Total fair market value, recognized over vesting period | \$3,788 | \$3,960 |
| Total expected expense to be recognized in Fiscal 2014 | \$462 | \$498 |
| Expense recognized as a component of selling and administrative expense | \$159 | \$165 |
| Expense capitalized in property and equipment, net ⁽⁴⁾ | \$53 | \$55 |
| RSUs vesting in period: ⁽⁵⁾ | 78,444 | 78,444 |
| Additional compensation expense recorded for awards vesting prior to the completion of the initially estimated requisite service period, recognized as a component of selling and administrative expense (in thousands) | \$18 | \$18 |
| Additional compensation expense capitalized in property and equipment, net (in thousands) ⁽⁴⁾ | \$12 | \$12 |
| Shares withheld in payment for taxes associated with vested RSUs | 29,199 | 29,199 |
| DSU grants: | | |
| Units granted from 2011 Incentive Plan to non-executive directors | — | 29,609 |
| Vesting period, in years | | 1 |
| Compensation information related to DSUs granted in period (in thousands): | | |
| Total fair market value, recognized over vesting period | \$— | \$693 |
| Total expected expense to be recognized in Fiscal 2014 | \$— | \$437 |
| Expense recognized as a component of selling and administrative expense | \$192 | \$246 |

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

(2) Awards granted with this provision vest evenly at the end of each of the next five years.

(3) Award granted with this provision cliff vests at the end of one year.

(4) 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.

(5) RSUs vested upon achieving conditions related to the trading price of our common stock.

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:

8

Table of Contents

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.

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):

| | December 31, 2013 | | March 31, 2013 | |
|--|-------------------|-------------|----------------|-------------|
| | Fair Value | Input Level | Fair Value | Input Level |
| Available-for-sale marketable securities | | | | |
| Adjustable-rate governmental bond funds | \$21,651 | Level 1 | \$16,588 | 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 nine months of Fiscal 2014.

Marketable securities, all of which were classified as “available-for-sale” at December 31, 2013 and March 31, 2013, consisted of the following (dollars in thousands):

| | December 31, 2013 | March 31, 2013 |
|--|----------------------|-------------------|
| Available-for-sale marketable securities | | |
| Amortized cost | \$21,730 | \$16,596 |
| Gross unrecognized holding losses | (79) | (8) |
| Fair value | \$21,651 | \$16,588 |

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

On August 16, 2013, we acquired iTVX, a provider of branded entertainment analytics, insight and research, for \$2.8 million. iTVX is reported as a component of TV Essentials® in our AMI Division and expands our product and service offerings. We made an initial payment of \$0.8 million, of which approximately \$383,000 was paid in cash and \$375,000 was paid in shares of our common stock. The acquisition also includes contingent consideration which will be paid on January 29, 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 are 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 nine month periods ended December 31, 2013, the fair value of the estimated contingent consideration arrangement increased by \$0.3 million and \$1.1 million, respectively. The increase was a result of an increase in the value of our common stock price and has been included in selling 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 impact the fair value of the payment and our results of operations. The fair value of the estimated contingent consideration as of December 31, 2013 is \$3.1 million and is

included in accrued compensation 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.

Table of Contents

The deferred tax liabilities acquired have been applied against our fully reserved deferred tax assets and, accordingly, we lowered our valuation allowance and recorded a tax benefit of \$0.3 million for the nine month period ended December 31, 2013.

For the three and nine months ended December 31, 2013, we included \$0.3 million and \$0.4 million, respectively, in revenue and \$0.3 million and \$0.5 million, respectively, in net losses related to iTVX since the acquisition date as well as the adjustment for the contingent consideration as a result of the increase in our common stock price as noted above. For the three and nine months ended December 31, 2013, we incurred acquisition costs of \$23,000 and \$204,000, respectively, as well as amortization expense of \$44,000 and \$69,000, respectively, relating to the intangible assets acquired, which are included in selling and administrative expenses on 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):

| | Nine Months Ended December 31, 2013 | | |
|----------------------|-------------------------------------|-------|---------|
| | AMI | HE | Total |
| Beginning balance | \$4,467 | \$531 | \$4,998 |
| Acquisition of iTVX | 1,888 | — | 1,888 |
| Currency translation | 138 | — | 138 |
| Ending balance | \$6,493 | \$531 | \$7,024 |
| | Year Ended March 31, 2013 | | |
| | AMI | HE | Total |
| Beginning balance | \$4,570 | \$531 | \$5,101 |
| Currency translation | (103 |) — | (103 |
| Ending balance | \$4,467 | \$531 | \$4,998 |

Other Intangible Assets

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

| | Amortization Period | December 31, | |
|--------------------------|---------------------|--------------|----------------|
| | | 2013 | March 31, 2013 |
| Local relationships | 6 to 10 years | \$7,924 | \$6,979 |
| Accumulated amortization | | (3,008 |) (2,217 |
| | | 4,916 | 4,762 |
| Trade names | 1 to 3 years | 75 | 50 |
| Accumulated amortization | | (55 |) (50 |
| | | 20 | — |
| Existing technology | 4 years | 334 | 66 |
| Accumulated amortization | | (91 |) (66 |
| | | 243 | — |
| Patents | 20 years | 384 | 244 |
| Accumulated amortization | | (23 |) (10 |
| | | 361 | 234 |
| Order backlog | 1 year | 2 | — |
| Accumulated amortization | | (1 |) — |
| | | 1 | — |
| Global relationships | Indefinite | 7,400 | 7,400 |
| Total | | \$12,941 | \$12,396 |

Table of Contents

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

| | Nine Months Ended December | |
|----------------------|----------------------------|-------|
| | 31, | 2012 |
| | 2013 | 2012 |
| Local relationships | \$649 | \$604 |
| Trade names | 5 | 13 |
| Existing technology | 25 | — |
| Patents | 12 | 5 |
| Order backlog | 1 | — |
| Currency translation | 142 | 12 |
| | \$834 | \$634 |

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

| Fiscal | Local Relationships | Trade names | Existing Technology | Patents | Order Backlog |
|--------------------------|---------------------|-------------|---------------------|---------|---------------|
| Remainder of Fiscal 2014 | \$221 | \$3 | \$17 | \$10 | \$1 |
| 2015 | 885 | 12 | 67 | 19 | — |
| 2016 | 885 | 5 | 67 | 19 | — |
| 2017 | 886 | — | 67 | 19 | — |
| 2018 | 837 | — | 25 | 19 | — |
| Thereafter | 1,202 | — | — | 275 | — |
| | \$4,916 | \$20 | \$243 | \$361 | \$1 |

Note 8. New Accounting Guidance ASU 2013-11

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU 2013-11”). ASU 2013-11 amends the guidance related to the presentation of unrecognized tax benefits and allows for the reduction of a deferred tax asset for a net operating loss (“NOL”) carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. ASU 2013-11 is effective for annual and interim periods for fiscal years beginning after December 15, 2013, and early adoption is permitted. Since ASU 2013-11 relates only to the presentation of unrecognized tax benefits, we do not expect our adoption of ASU 2013-11 in the first quarter of Fiscal 2015 will have a material effect on our financial position, results of operations, or cash flows.

ASU 2013-02

In February 2013, the FASB issued ASU No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (“ASU 2013-02”). ASU 2013-02 amends the guidance related to reporting amounts reclassified out of other comprehensive income and includes identification of the line items in net earnings affected by the reclassifications. ASU 2013-02 is effective for annual and interim periods for fiscal years beginning after December 15, 2012, and early adoption is permitted. Since ASU 2013-02 relates only to the presentation of comprehensive income, the adoption of this guidance, effective April 1, 2013, did not have a material effect on our financial position, results of operations, or cash flows.

Note 9. Subsequent Events

We have considered all events that have occurred subsequent to December 31, 2013 and through the date of this filing and determined that no additional disclosure is required.

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 thereon or comparable terminology. Forward-looking statements in this Quarterly Report on Form 10-Q include, in particular, statements regarding:

- our future results of operations and financial condition and future revenue and expenses, including decreases in Home Entertainment ("HE") Division revenue and increases in our Entertainment Essentials™ revenue as a result of further investments and development and expansion of new and existing services, both domestically and internationally;
- 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;
- continued contraction in the major "brick and mortar" retailers' share of the home video rental market;
- continued increases in end consumers' usage of non-"brick and mortar" options for obtaining entertainment content, such as kiosks;
- future acquisitions or investments;
- our plans or requirements to hold or sell our marketable securities;
- 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 2014 for the capitalization of internally developed software, computer equipment and other purposes;
- expected amortization of our deferred rent; and
- 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 December 31, 2014.

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;
- retain and grow our base of retailers ("Participating Retailers");
- manage the impact that rapidly changing technology and consumer preferences may have on our existing Participating Retailers and the risks associated with Participating Retailers ceasing to operate or exiting the home video rental market earlier than anticipated;

continue to obtain home entertainment content products (e.g. DVDs, Blu-ray Discs) (collectively “Units”) leased/licensed to home video specialty stores and other retailers from content providers, generally motion picture studios and other licensors or owners of the rights to certain video programming content (“Program Suppliers”); retain and expand our relationships with our significant Program Suppliers; manage and/or offset any cost increases; add new clients, retain existing clients or adjust rates for our services;

Table of Contents

- 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, 2013 (“Fiscal 2013”) as filed with the Securities and Exchange Commission on June 13, 2013 for a discussion of reasons why our actual results may 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 have two operating divisions within our corporate structure and, accordingly, we report certain financial information by individual segment under this structure. Our Advanced Media and Information (“AMI”) Division includes our media measurement services. Our HE Division includes our distribution services as well as services that measure, aggregate and report consumer rental and retail activity on film product from traditional “brick and mortar,” online and kiosk retailers.

Our AMI Division includes our Entertainment Essentials™ lines of business and encompasses media measurement business intelligence services across multiple screens and platforms delivered as Software as a Service (“SaaS”). These 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 stations, cable, satellite and telecommunications company (“telco”) operators, advertisers and advertising agencies insights into consumer viewing and purchasing patterns through our thorough and expansive databases of box office results and local, national, on demand and “Over the Top” television performance.

Our HE Division services incorporate a unique set of applications designed to help clients maintain and direct their business practices relating to home video products. Entertainment content is distributed to various retailers primarily on behalf of motion picture studios. We track and report performance of home entertainment products leased directly to video retailers or through our Pay-Per-Transaction® (“PPT®”) System. Within this system, video retailers are given access to a wide selection of box office hits, independent releases and foreign films from the industry’s leading suppliers on a revenue sharing basis. We provide second- and third-tier retailers, as well as a few major chains, the opportunity to acquire new inventory, and our PPT® System enables retailers everywhere, regardless of size, the ability to increase the depth and breadth of their inventory, to more efficiently adjust ordering strategies to better satisfy consumer demand and to more effectively take advantage of trends and opportunities in the marketplace. We lease product from our Program Suppliers; Participating Retailers sublease that product from us and rent it to consumers. Participating 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 Program Suppliers. Our PPT® System supplies both content providers and retailers with the intelligence and infrastructure necessary to make revenue sharing a viable and productive option.

Our HE Division also includes our rental Studio Direct Revenue Sharing (“DRS”) services, which grant content providers constant, clear feedback and data, plus valuable checks and balances on how both their video products and retailers are performing. Data relating to rented entertainment content is received on physical product under established agreements on a fee for service basis.

AMI Division

Our media measurement services, offered primarily on a recurring subscription basis, are distributed to clients through patent pending software systems and business processes, and capture data and other intelligence viewed on multiple screens across various platforms within the entertainment industry.

Our current spending, investments and long-term strategic planning are heavily focused on the development, growth and expansion of our AMI Division, both domestically and internationally. As such, we continue to allocate significant resources to our Entertainment Essentials™ services and product lines. Our AMI Division revenue increased \$11.7 million, or 29.5%, in the first nine months of Fiscal 2014 compared to the first nine months of Fiscal 2013.

The AMI Division lines of business, which we refer to as Entertainment Essentials™ services, are:
• TV Essentials®, which includes StationView Essentials™;

Table of Contents

Box Office Essentials®; and

OnDemand Everywhere™, which includes OnDemand Essentials and related products.

Typical clients subscribing to our services include motion picture studios, television networks and stations, cable, satellite and telco operators, advertisers and advertising agencies.

HE Division

The financial results from the HE Division continue to be affected by the changing dynamics in the home video rental market. This market is highly competitive, constantly changing and influenced greatly by consumer spending patterns, behaviors and technological advancements. The end consumer has a wide variety of choices from which to select his or her entertainment content and can easily shift from one provider to another. Some examples include renting Units from our Participating Retailers or other retailers, purchasing previously viewed Units from our Participating Retailers or other retailers, renting or purchasing Units from kiosk locations, ordering Units via online subscriptions and/or online distributors (mail delivery), 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, cable, or telecommunications provider.

Our PPT® System focuses primarily on the traditional “brick and mortar” retailer and provides those Participating Retailers the opportunity to increase the depth and breadth of their inventory, to more efficiently adjust ordering strategies to better satisfy consumer demand and to more effectively take advantage of trends or opportunities in the marketplace. Many of our arrangements are structured so that Participating Retailers pay reduced 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). These programs offer Participating Retailers a way to more effectively acquire “new release” rental inventory on a lease basis instead of purchasing and owning the inventory directly.

The landscape of the home video rental market for “brick and mortar” retailers has seen significant changes, and some major retailers, such as Movie Gallery, have exited the market entirely. In November 2013, Blockbuster Entertainment (“Blockbuster”), which has been a PPT customer of ours since the third quarter of Fiscal 2013, announced it will close all remaining U.S. based locations, which represents approximately 300 company-owned retail stores, as well as its by-mail movie distribution, by early January 2014. As a result of these market changes, the major “brick and mortar” retailers’ share of the overall industry is contracting. It is difficult to predict what effect, if any, this will have on our Program Suppliers and/or the performance of our Participating Retailers.

Also, end consumers’ usage of non-“brick and mortar” options for obtaining entertainment content, such as kiosks, continues to increase, and our Participating Retailers’ market share has been negatively affected, contributing to an overall decline in our revenue in the past few years. While we have generated increases in revenue in the current quarter and the current fiscal year partially as a result of adding Blockbuster, as noted above, we currently expect PPT® revenue to decline beginning in the fourth quarter of Fiscal 2014 due to Blockbuster’s closure and exit from the market.

In general, we continue to be in good standing with our Program Suppliers, and we make ongoing efforts to strengthen those business relationships through enhancements to our current service offerings. During the third quarter of Fiscal 2013, a former Program Supplier, Warner Bros., returned to the PPT® System, and we were able to begin offering its content to our Participating Retailers again. We are also continually seeking to develop business relationships with new Program Suppliers, and we have seen an increased interest in our offerings as Program Suppliers look for ways to reduce expenses. Our relationships with Program Suppliers may typically be terminated without cause upon thirty days’ written notice by either party.

Sources of Revenue

Revenue by segment includes the following:

AMI Division

Subscription fee and other revenue, primarily relating to custom reports, from our Entertainment Essentials™ services.

HE Division

PPT® revenue includes upfront fees generated when Units are distributed to Participating Retailers, and transaction fees generated when Participating Retailers rent Units or sell previously-viewed rental Units to consumers.

Additionally, certain arrangements include guaranteed minimum revenue from our customers, which are recognized on the street (release) date, provided all other revenue recognition criteria are met; and

Table of Contents

DRS fees, which are generated from data tracking and reporting services provided to Program Suppliers.

Results of Operations

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

| | AMI | HE | Other ⁽¹⁾ | Total |
|--------------------------------------|-----------|-----------|----------------------|-----------|
| Three Months Ended December 31, 2013 | | | | |
| Sales to external customers | \$ 18,510 | \$ 13,099 | \$— | \$ 31,609 |
| Gross margin | 11,690 | 3,461 | — | 15,151 |
| Income (loss) from operations | 2,841 | 2,124 | (5,660) | (695) |
| Three Months Ended December 31, 2012 | | | | |
| Sales to external customers | \$ 13,712 | \$ 11,236 | \$— | \$ 24,948 |
| Gross margin | 8,210 | 2,891 | — | 11,101 |
| Income (loss) from operations | 1,194 | 1,523 | (4,486) | (1,769) |
| Nine Months Ended December 31, 2013 | | | | |
| Sales to external customers | \$ 51,229 | \$ 38,697 | \$— | \$ 89,926 |
| Gross margin | 31,291 | 10,622 | — | 41,913 |
| Income (loss) from operations | 6,210 | 6,557 | (15,537) | (2,770) |
| Nine Months Ended December 31, 2012 | | | | |
| Sales to external customers | \$ 39,553 | \$ 31,109 | \$— | \$ 70,662 |
| Gross margin | 24,291 | 9,028 | — | 33,319 |
| Income (loss) from operations | (12,555) | 5,016 | (13,292) | (20,831) |

(1) Includes corporate and other expenses that are not allocated to a specific segment.

Revenue

Revenue increased \$6.7 million, or 26.7%, to \$31.6 million in the third quarter of Fiscal 2014 compared to \$24.9 million in the third quarter of Fiscal 2013. Revenue increased \$19.3 million, or 27.3%, to \$89.9 million in the nine month period ended December 31, 2013 compared to \$70.7 million in the nine month period ended December 31, 2012. The increase in revenue was due to an increase in AMI Division revenue, primarily related to growth in our existing lines of business, and an increase in HE Division revenue, primarily related to the addition of Blockbuster in the third quarter of Fiscal 2013, coupled with an increase in the total Units available to our Participating Retailers, primarily as a result of the return of Warner Bros. to the PPT[®] System noted above. These fluctuations are described in more detail below.

AMI Division

Revenue related to our Entertainment Essentials[™] business information service offerings increased primarily due to the addition of new customers, rate increases from existing customers and expansion of our systems and service offerings. We expect continued future increases in our Entertainment Essentials[™] revenue as a result of further investments, development and expansion of new and existing services, both domestically and internationally.

Table of Contents

Revenue information related to our AMI Division is as follows (dollars in thousands):

| | Three Months Ended December | | Dollar Change | % Change |
|------------------------|-----------------------------|----------|------------------|----------|
| | 31, 2013 | 2012 | | |
| TV Essentials® | \$8,399 | \$4,557 | \$3,842 | 84.3% |
| Box Office Essentials® | 6,743 | 6,089 | 654 | 10.7% |
| OnDemand Everywhere™ | 3,368 | 3,066 | 302 | 9.8% |
| | \$18,510 | \$13,712 | \$4,798 | 35.0% |
| | Nine Months Ended December | | Dollar Change | % Change |
| | 31, 2013 | 2012 | | |
| TV Essentials® | \$21,311 | \$12,442 | \$8,869 | 71.3% |
| Box Office Essentials® | 19,549 | 17,793 | 1,756 | 9.9% |
| OnDemand Everywhere™ | 10,369 | 9,318 | 1,051 | 11.3% |
| | \$51,229 | \$39,553 | \$11,676 | 29.5% |

The increases in TV Essentials® revenue in the Fiscal 2014 periods were primarily due to the addition of new clients, rate increases for existing clients and sales of custom reports and data, as well as our acquisition of iTVX in the second quarter of Fiscal 2014, which contributed \$298,000 and \$427,000, respectively to the increases in revenue in both the three and nine month periods ended December 31, 2013.

The increases in Box Office Essentials® revenue in the Fiscal 2014 periods were primarily due to rate increases for existing clients and the addition of new services.

The increases in OnDemand Everywhere™ revenue in the Fiscal 2014 periods were primarily due to rate increases for existing clients and launching new services, offset by the end of a large custom reporting project included in the Fiscal 2013 periods.

HE Division

Revenue information related to our HE Division is as follows (dollars in thousands):

| | Three Months Ended December | | Dollar Change | % Change |
|------|-----------------------------|----------|------------------|----------|
| | 31, 2013 | 2012 | | |
| PPT® | \$12,092 | \$10,666 | \$1,426 | 13.4% |
| DRS | 1,007 | 570 | 437 | 76.7% |
| | \$13,099 | \$11,236 | \$1,863 | 16.6% |
| | Nine Months Ended December | | Dollar Change | % Change |
| | 31, 2013 | 2012 | | |
| PPT® | \$35,883 | \$29,051 | \$6,832 | 23.5% |
| DRS | 2,814 | 2,058 | 756 | 36.7% |
| | \$38,697 | \$31,109 | \$7,588 | 24.4% |

The increases in PPT® revenue in the Fiscal 2014 periods were primarily due to the addition of Blockbuster as a Participating Retailer and the return of Warner Bros. as a Program Supplier as of the third quarter of Fiscal 2013. We expect volume and revenue for the fourth quarter of Fiscal 2014 to decrease due to Blockbuster's exit from the market, which could result in a 25% to 30% decline in revenue compared to our fourth quarter of Fiscal 2013. Given the overall declines in the industry and changes in consumer preferences noted previously, we expect revenue to decline

by approximately 15% to 20% annually over the longer term.

The increases in DRS revenue in the Fiscal 2014 periods were primarily due to increased transactions processed as a result of the return of Warner Bros. as a Program Supplier as of the third quarter of Fiscal 2013. We believe the modification of Warner Bros.' distribution strategy should have a favorable impact on our DRS revenue, but it is difficult to predict what impact, if any, this will have on our revenue in the future.

Table of Contents

Cost of Sales and Gross Margins

Cost of sales represents the direct costs to produce revenue.

In the AMI Division, cost of sales includes costs relating to our Entertainment Essentials™ services, and consists of 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.

In the HE Division, cost of sales includes Unit costs, transaction costs, sell-through costs and freight costs. 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 affected 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 recognition of 100% of the 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 Units, margins may not expand to any significant degree during any reporting period. As a result, it is difficult to predict the effect these Program Supplier revenue sharing programs with guaranteed minimums will have on future results of operations in any reporting period.

Cost of sales increased \$2.6 million, or 18.9%, in the third quarter of Fiscal 2014 compared to the third quarter of Fiscal 2013 as described in more detail below.

AMI Division

Cost of sales information related to our AMI Division is as follows (dollars in thousands):

| | Three Months Ended December | | Dollar Change | % Change |
|---|-----------------------------|----------|------------------|----------|
| | 31, 2013 | 2012 | | |
| Costs related to: | | | | |
| Amortization of internally developed software | \$785 | \$667 | \$118 | 17.7% |
| Call center operation | 1,327 | 1,362 | (35) | (2.6)% |
| Obtaining, cleansing and processing data | 4,708 | 3,473 | 1,235 | 35.6% |
| | \$6,820 | \$5,502 | \$1,318 | 24.0% |
| | Nine Months Ended December | | Dollar Change | % Change |
| | 31, 2013 | 2012 | | |
| Costs related to: | | | | |
| Amortization of internally developed software | \$2,364 | \$1,914 | \$450 | 23.5% |
| Call center operation | 4,062 | 3,872 | 190 | 4.9% |
| Obtaining, cleansing and processing data | 13,512 | 9,476 | 4,036 | 42.6% |
| | \$19,938 | \$15,262 | \$4,676 | 30.6% |

The increases in cost of sales within the AMI Division in the Fiscal 2014 periods compared to the same periods of Fiscal 2013 resulted primarily from the addition of new data supplier agreements and the amendment to our data supplier agreement with DISH Network L.L.C. ("DISH"), which occurred in the second quarter of Fiscal 2013, and requires minimum payments relating to predefined net profit sharing provisions of portions of our TV Essentials® line of business.

Table of Contents

HE Division

Cost of sales information related to our HE Division is as follows (dollars in thousands):

| | Three Months Ended December | | Dollar Change | % Change |
|-------------------|-----------------------------|----------|------------------|-----------|
| | 31, 2013 | 2012 | | |
| Costs related to: | | | | |
| Transaction fees | \$6,574 | \$5,879 | \$695 | 11.8% |
| Sell-through fees | 2,008 | 1,239 | 769 | 62.1% |
| Other | 1,056 | 1,227 | (171) |) (13.9)% |
| | \$9,638 | \$8,345 | \$1,293 | 15.5% |
| | Nine Months Ended December | | Dollar Change | % Change |
| | 31, 2013 | 2012 | | |
| Costs related to: | | | | |
| Transaction fees | \$19,483 | \$15,339 | \$4,144 | 27.0% |
| Sell-through fees | 5,752 | 3,771 | 1,981 | 52.5% |
| Other | 2,840 | 2,971 | (131) |) (4.4)% |
| | \$28,075 | \$22,081 | \$5,994 | 27.1% |

The increases in cost of sales within the HE Division in the Fiscal 2014 periods were primarily related to the increases in revenue as discussed above.

Gross margins as a percentage of revenue were as follows:

| | Three Months Ended December | | Nine Months Ended December | |
|--------------|-----------------------------|-------|----------------------------|-------|
| | 31, 2013 | 2012 | 31, 2013 | 2012 |
| AMI Division | 63.2% | 59.9% | 61.1% | 61.4% |
| HE Division | 26.4% | 25.7% | 27.4% | 29.0% |

The increase in gross margin in the AMI Division in the three month period ended December 31, 2013 compared to the same period of Fiscal 2013 was primarily due to improvements in gross margin from TV Essentials® as a result of increases in revenue.

The increase in gross margin for the HE Division in the three month period ended December 31, 2013 compared to the same period of Fiscal 2013 was primarily due to increases in DRS revenue. The decrease in gross margin in the HE Division in the nine month period ended December 31, 2013 compared to the same periods of Fiscal 2013 was primarily due to lower margins relating to the addition of Blockbuster as a Participating Retailer. While we expect margins as a percentage of revenue to improve as a result of the anticipated loss of Blockbuster as a customer in January 2014, margins can fluctuate based on a number of factors and it is difficult to predict what impact this will have on margins in the future.

Selling and Administrative

Selling and administrative expenses consist primarily of compensation and benefits, research and development, 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

Selling and administrative expense information is as follows (dollars in thousands):

| | Three Months Ended December | | Dollar Change | % Change |
|---|-----------------------------|----------|------------------|-----------|
| | 31, 2013 | 2012 | | |
| Selling and administrative AMI (excluding stock-based compensation for iTVX and DISH) | \$8,549 | \$7,016 | \$1,533 | 21.9% |
| AMI stock-based compensation for iTVX and DISH | 300 | — | 300 | nm |
| Total AMI | 8,849 | 7,016 | 1,833 | 26.1% |
| HE | 1,337 | 1,368 | (31) |) (2.3)% |
| Corporate | 5,660 | 4,486 | 1,174 | 26.2% |
| | \$15,846 | \$12,870 | \$2,976 | 23.1% |
| | Nine Months Ended December | | Dollar Change | % Change |
| | 31, 2013 | 2012 | | |
| Selling and administrative AMI (excluding stock-based compensation for iTVX and DISH) | \$23,981 | \$20,982 | \$2,999 | 14.3% |
| AMI stock-based compensation for iTVX and DISH | 1,100 | 15,864 | (14,764) |) nm |
| Total AMI | 25,081 | 36,846 | (11,765) |) (31.9)% |
| HE | 4,065 | 4,012 | 53 | 1.3% |
| Corporate | 15,537 | 13,292 | 2,245 | 16.9% |
| | \$44,683 | \$54,150 | \$(9,467) |) (17.5)% |

AMI Division

The increases in selling and administrative expenses in the AMI Division (excluding stock-based compensation for iTVX and DISH) in the three and nine month periods ended December 31, 2013, compared to the same periods of Fiscal 2013 were primarily due to increased costs related to the expansion of our AMI Division, most of which was related to the growth in TV Essentials® as well as costs associated with our acquisition of iTVX.

HE Division

The changes in selling and administrative expenses in the HE Division in the Fiscal 2014 periods compared to the same periods of Fiscal 2013 were primarily due to increases in bonuses and advertising expense associated with the increase in revenue discussed above, and by reductions in bad debt expense.

Corporate

The increases in Corporate selling and administrative expenses in the Fiscal 2014 periods compared to the same periods of Fiscal 2013 were primarily due to increases in headcount in our information technology department and other professional services expenses.

Table of Contents

Loss from Operations (dollars in thousands)

| | Three Months Ended December | | Dollar Change | % Change |
|---|-----------------------------|-------------|------------------|----------|
| | 31, 2013 | 2012 | | |
| Income (loss) from operations | | | | |
| AMI (excluding stock-based compensation related to iTVX and DISH) | \$3,141 | \$1,194 | \$1,947 | 163.1% |
| Less: AMI stock-based compensation related to iTVX and DISH | 300 | — | 300 | nm |
| Total AMI | 2,841 | 1,194 | 1,647 | 137.9% |
| HE | 2,124 | 1,523 | 601 | 39.5% |
| Corporate | (5,660) | (4,486) | (1,174) | (26.2)% |
| | \$(695) | \$(1,769) | \$1,074 | (60.7)% |
| | Nine Months Ended December | | Dollar Change | % Change |
| | 31, 2013 | 2012 | | |
| Income (loss) from operations | | | | |
| AMI (excluding stock-based compensation related to iTVX and DISH) | \$7,310 | \$3,309 | \$4,001 | 120.9% |
| Less: AMI stock-based compensation related to iTVX and DISH | 1,100 | 15,864 | (14,764) | nm |
| Total AMI | 6,210 | (12,555) | 18,765 | nm |
| HE | 6,557 | 5,016 | 1,541 | 30.7% |
| Corporate | (15,537) | (13,292) | (2,245) | (16.9)% |
| | \$(2,770) | \$(20,831) | \$18,061 | (86.7)% |

The decreases in loss from operations in the Fiscal 2014 periods compared to the same periods of Fiscal 2013 were primarily due to increases in revenue, partially offset by increases in expenses related to the growth in our AMI Division, including the acquisition of iTVX in the second quarter of Fiscal 2014, and the reduction in expense relating to the stock-based compensation agreement with DISH which was amended in the second quarter of Fiscal 2013 as discussed above.

Income Taxes

Our effective tax rate is determined by excluding certain jurisdictions with net losses. Also, during the second quarter of Fiscal 2014, we acquired deferred tax liabilities from iTVX which have been applied against our fully reserved deferred tax assets and, accordingly, we lowered our valuation allowance and recorded a tax benefit of \$0.3 million. Additionally, we effectively settled a United States IRS audit of our Fiscal 2011 tax return and reduced certain reserves relating to tax contingencies. As a result, the tax benefit was 15.5% in the first nine months of Fiscal 2014 and compared to a provision of 0.9% in the first nine months of Fiscal 2013.

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 December 31, 2014.

Cash and cash equivalents and marketable securities increased \$6.5 million to \$26.9 million at December 31, 2013 from March 31, 2013. This increase resulted primarily from \$11.0 million provided by operating activities and \$1.5 million in proceeds from the issuance of common stock, partially offset by \$5.8 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 December 31, 2013, we had \$3.4 million in foreign bank accounts which we plan to use to fund our international expansion and growth.

We had \$21.7 million invested in an adjustable-rate governmental bond fund as of December 31, 2013. Bond 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, bond fund values fall and investors may lose principal value. While we currently have no

Table of Contents

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 and notes receivable, net of allowances, decreased \$1.2 million to \$15.5 million at December 31, 2013 from March 31, 2013, primarily due to lower revenue in the HE Division in the third quarter of Fiscal 2014 compared to the fourth quarter of Fiscal 2013, partially offset by a reduction to our bad debt reserves in the quarter due to improved customer collections.

During the first nine months of Fiscal 2014, we spent \$5.8 million on property and equipment, including \$4.4 million for the capitalization of internally developed software for our business information service offerings. We anticipate spending a total of approximately \$7.7 million in Fiscal 2014 on property and equipment, of which approximately \$5.2 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 \$4.6 million to \$8.0 million at December 31, 2013 from March 31, 2013, primarily due to increased expenses incurred related to our data suppliers. We expect to make payments of \$8.0 million during our fourth quarter of Fiscal 2014.

Accrued compensation increased \$3.2 million to \$9.0 million at December 31, 2013 from March 31, 2013, primarily due to a \$3.1 million accrual for contingent consideration associated with our acquisition of iTVX.

Deferred revenue and other credits of \$1.9 million at December 31, 2013 included amounts related to quarterly and annual subscriptions for our services, as well as the current portion of our deferred rent credits.

Deferred rent of \$2.7 million at December 31, 2013, 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 2014.

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 December 31, 2013, 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 December 31, 2013, we were in compliance with those covenants.

In the first quarter of Fiscal 2012, we received a loan from the State of Oregon for \$0.5 million for the purpose of facility renovations. The loan accrued interest at 5% per annum and contained provisions relating to forgiveness if we met certain requirements. The loan was forgiven on April 3, 2013. The \$0.5 million gain related to the forgiveness was recorded as an offset to leasehold improvements and is being amortized as an offset to depreciation expense over the life of the related lease at the rate of \$16,000 per quarter.

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 that are material to investors.

Critical Accounting Policies and Estimates

We reaffirm the critical accounting policies and estimates as reported in our Fiscal 2013 Annual Report on Form 10-K.

New Accounting Guidance

See Note 8 of Notes to Condensed Consolidated Financial Statements.

Table of Contents

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 2013 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 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.

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, 2013 includes a detailed discussion of our risk factors. There have been no material changes from the risk factors previously disclosed in our Fiscal 2013 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 2013 Form 10-K.

ITEM 6. EXHIBITS

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

- 10.1 Second Amendment to Employment Agreement with William P. Livek, effective as of October 1, 2013
- 10.2 Second Amendment to Employment Agreement with David I. Chemerow, effective as of October 1, 2013
- 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.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Label Linkbase Document

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: February 6, 2014

RENTRAK CORPORATION

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