RENTRAK CORP
Form 10-Q
February 05, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 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

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

Oregon (State or other jurisdiction of incorporation or organization)	93-0780536 (I.R.S. Employer Identification No.)
7700 NE Ambassador Place, Portland, Oregon (Address of principal executive offices)	97220 (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 x 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 x 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	x
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 x

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	15,204,978
(Class)	(Outstanding at February 1, 2015)

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PART I
ITEM 1. FINANCIAL STATEMENTS
Rentrak Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands, except per share amounts)

	December 31, 2014	March 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$6,007	$5,102
Marketable securities	79,011	16,868
Accounts receivable, net of allowances for doubtful accounts of $83 and $162	19,031	12,199
Taxes receivable and prepaid taxes	—	122
Deferred tax assets, net	34	44
Assets held for sale	4,120	5,443
Other current assets	2,595	2,818
Total Current Assets	110,798	42,596
Property and equipment, net of accumulated depreciation of $27,387 and $23,785	21,657	17,891
Goodwill	136,127	7,034
Other intangible assets, net of accumulated amortization of $4,023 and $3,447	16,821	12,724
Other assets	1,003	1,022
Total Assets	$286,406	$81,267
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$4,066	$1,766
Accrued liabilities	557	370
Accrued data provider liabilities	9,580	4,460
Accrued compensation	7,038	6,743
Deferred revenue and other credits	3,281	2,644
Liabilities held for sale	4,163	3,858
Total Current Liabilities	28,685	19,841
Deferred rent, long-term	2,238	2,413
Accrued compensation, long-term	5,700	4,700
Taxes payable, long-term	568	520
Deferred tax liability, net, long-term	1,946	759
Total Liabilities	39,137	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: 15,195 and 12,213	15	12
Capital in excess of par value	282,341	83,562
Accumulated other comprehensive income (loss)	(376)	409
Accumulated deficit	(35,449)	(31,823)
Stockholders' Equity attributable to Rentrak Corporation	246,531	52,160
Noncontrolling interest	738	874
Total Stockholders' Equity	247,269	53,034
Total Liabilities and Stockholders' Equity	$286,406	$81,267

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2014	2013	2014	2013
Revenue	$26,874	$19,517	$74,459	$54,042
Cost of revenue	9,538	6,820	25,182	19,938
Gross margin	17,336	12,697	49,277	34,104
Operating expenses:				
Selling, general and administrative	16,383	12,274	43,761	34,460
Research, technology and innovation	3,308	2,265	9,645	6,256
Total operating expenses	19,691	14,539	53,406	40,716
Loss from continuing operations	(2,355)	(1,842)	(4,129)	(6,612)
Other income, net	82	53	122	144
Loss from continuing operations before income taxes	(2,273)	(1,789)	(4,007)	(6,468)
Provision (benefit) for income taxes	377	(758)	743	(2,020)
Loss from continuing operations, net of income taxes	(2,650)	(1,031)	(4,750)	(4,448)
Income from discontinued operations, net of income taxes	332	665	988	2,228
Net loss	(2,318)	(366)	(3,762)	(2,220)
Net loss attributable to noncontrolling interest	(31)	(23)	(135)	(52)
Net loss attributable to Rentrak Corporation	$(2,287)	$(343)	$(3,627)	$(2,168)
Loss per share from continuing operations attributable to Rentrak Corporation common stockholders:				
Basic	$(0.19)	$(0.08)	$(0.36)	$(0.36)
Diluted	$(0.19)	$(0.08)	$(0.36)	$(0.36)
Income per share from discontinued operations attributable to Rentrak Corporation common stockholders:				
Basic	$0.02	$0.05	$0.08	$0.18
Diluted	$0.02	$0.05	$0.08	$0.18
Net loss per share attributable to Rentrak Corporation common stockholders:				
Basic	$(0.17)	$(0.03)	$(0.28)	$(0.18)
Diluted	$(0.17)	$(0.03)	$(0.28)	$(0.18)
Shares used in per share calculations:				
Basic	13,516	12,181	12,875	12,116
Diluted	13,516	12,181	12,875	12,116

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2014	2013	2014	2013
Net loss	$(2,318)	$(366)	$(3,762)	$(2,220)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(246)	77	(631)	372
Unrealized holding gains (losses) which arose during the period on available-for-sale securities(1)	(122)	19	(157)	(74)
Recognition of previously unrealized losses on available-for-sale securities included in net loss(2)	4	—	4	2
Other comprehensive income (loss)	(364)	96	(784)	300
Comprehensive loss	(2,682)	(270)	(4,546)	(1,920)
Comprehensive loss attributable to noncontrolling interest	(31)	(23)	(135)	(52)
Comprehensive loss attributable to Rentrak Corporation	$(2,651)	$(247)	$(4,411)	$(1,868)

(1) For the three and nine months ended both December 31, 2014 and 2013, the amounts are net of zero deferred taxes.

(2) For the three and nine months ended both December 31, 2014 and 2013, the amounts are net of zero deferred tax benefits.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	For the Nine Months Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	$(3,762)	$(2,220)
Income from discontinued operations, net of income taxes	(988)	(2,228)
Adjustments to reconcile net loss to net cash flows provided by operating activities of continuing operations:		
Depreciation and amortization	5,366	4,326
Stock-based compensation	6,900	5,082
Deferred income taxes	1,272	(62)
Loss on disposition of assets	117	—
Realized loss on marketable securities	4	2
Adjustment to allowance for doubtful accounts	(79)	(130)
(Increase) decrease, net of effect of acquisition, in:		
Accounts receivable	(6,010)	(1,623)
Taxes receivable and prepaid taxes	122	(237)
Other assets	781	(793)
Increase (decrease), net of effect of acquisition, in:		
Accounts payable	1,757	343
Taxes payable	197	(196)
Accrued liabilities and compensation	1,853	4,181
Deferred revenue	460	(761)
Deferred rent	(123)	254
Net cash provided by operating activities of discontinued operations	2,881	5,099
Net cash provided by operating activities	10,748	11,037
Cash flows from investing activities:		
Purchase of marketable securities	(69,800)	(6,137)
Sale of marketable securities	7,500	1,000
Payments made to develop intangible assets	(84)	(104)
Purchase of property and equipment	(7,716)	(5,643)
Net cash used in investing activities of discontinued operations	—	(114)
Cash paid for acquisition, net of cash acquired	(207)	(372)
Net cash used in investing activities	(70,307)	(11,370)
Cash flows from financing activities:		
Proceeds from issuance of common stock	61,092	1,479
Net cash provided by financing activities	61,092	1,479
Effect of foreign exchange translation on cash	(628)	244
Increase in cash and cash equivalents	905	1,390
Cash and cash equivalents:		
Beginning of period	5,102	3,835
End of period	$6,007	$5,225
Supplemental non-cash information:		
Capitalized stock-based compensation	$677	$870
Common stock used to pay for option exercises	4,108	199

Common stock used to pay for taxes associated with option exercises	990	—
Common stock used to pay for taxes associated with vested restricted stock units	2,611	1,046
Decrease in leasehold improvements related to forgiven loan	—	550
Common stock used to pay for acquisition	114,120	375

See accompanying Notes to Condensed Consolidated Financial Statements.

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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 ("GAAP") 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, 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 $0.7 million as of December 31, 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 nine months ended December 31, 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 December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Basic EPS:				
Weighted average number of shares of common stock outstanding and vested deferred stock units ("DSUs")[(1)]	13,516	12,181	12,875	12,116
Diluted EPS:				
Effect of dilutive stock options and unvested DSUs	—	—	—	—
	13,516	12,181	12,875	12,116
Total outstanding options not included in diluted EPS as they would be antidilutive	2,882	2,917	2,882	2,917

Performance and market-based grants not included in diluted EPS	1	160	1	160

(1) Includes 178,703 and 184,458 vested cumulative DSUs, respectively, for the three months ended December 31, 2014 and 2013 and 176,701 and 177,648 vested cumulative DSUs, respectively, for the nine months ended December 31, 2014 and 2013 that will not be issued until the directors holding the DSUs retire from our Board of Directors.

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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 December 31, 2014 and 2013, it would have represented 21.8% and 38.3%, respectively, of our total revenue, and for the nine months ended December 31, 2014 and 2013, it would have represented 23.9% and 39.9%, 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 December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Revenue	$7,479	$12,092	$23,384	$35,884
Income from operations	$562	$1,147	$1,688	$3,842
Other expense	—	—	37	—
Income before income taxes	562	1,147	1,651	3,842
Income tax provision	230	482	663	1,614
Income from discontinued operations, net of income taxes	$332	$665	$988	$2,228

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

	December 31, 2014	March 31, 2014
Accounts receivable, net of allowances of $178 and $218	$3,812	$5,015
Other current assets	188	167
Property, plant and equipment, net of accumulated depreciation of $931 and $1,086	120	261
Total assets held for sale	$4,120	$5,443
Accounts payable	$3,600	$3,009
Accrued liabilities	—	1
Accrued compensation	563	848
Total liabilities held for sale	$4,163	$3,858

On February 3, 2015, we finalized our sale of the PPT® business. See additional information in Note 11.

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Note 4.Stock-Based Compensation

The following table summarizes our stock based grants:

	Three Months Ended December 31, 2014	Nine Months Ended December 31, 2014
Option grant:		
Shares granted from 2011 Incentive Plan to non-executive director	—	5,267
Fair market value per share on date of grant	$—	$46.92
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 2015	$—	$64
Expense recognized as a component of operating expenses	$27	$36
Restricted Stock (“RSU”) grants:		
Units granted from 2011 Incentive Plan	68,522	598,052
Vesting period, in years - high	10	10
Vesting period, in years - low	5	1
Compensation information related to RSUs granted in period (in thousands):		
Total fair market value, recognized over vesting period	$5,553	$31,614
Total expected expense to be recognized in Fiscal 2015	$233	$2,858
Expense recognized as a component of operating expenses	$52	$1,799
Expense capitalized in property and equipment, net (2)	$3	$81
RSUs vesting in period:	21,025	108,293
Shares withheld in payment for taxes associated with vested RSUs	7,991	49,196
DSU grants:		
Units granted from 2011 Incentive Plan to non-executive directors	—	14,917
Vesting period, in years		1
Compensation information related to DSUs granted in period (in thousands):		
Total fair market value, recognized over vesting period		$700
Total expected expense to be recognized in Fiscal 2015		$445
Expense recognized as a component of operating expenses	$191	$255
DSUs converted to common shares in period	—	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;
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- 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.

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

	December 31, 2014		March 31, 2014	
	Fair Value	Input Level	Fair Value	Input Level
Available-for-sale marketable securities				
Fixed-income securities	$79,011	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 nine months of Fiscal 2015.

Our acquisition of iTVX in August 2013 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 nine month periods ended December 31, 2014, the fair value of the estimated contingent consideration arrangement, as well as the related expense, increased by $0.9 million and $1.0 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 December 31, 2014, was $5.7 million and is included in accrued compensation, long-term in our Condensed Consolidated Balance Sheets. There were no changes to our valuation techniques during the first nine months of Fiscal 2015.

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

	December 31, 2014	March 31, 2014
Available-for-sale marketable securities		
Amortized cost	$79,164	$16,868
Gross unrecognized holding losses	(153)	—
Fair value	$79,011	$16,868

Note 6.Acquisition of Kantar Media's U.S. Based Television Measurement Assets

On December 1, 2014, we acquired the U.S. television measurement business of WPP's Kantar business unit (a unit of Competitive Media Reporting, LLC, an affiliate of WPP plc ("WPP")). The agreement consists of customer contracts and relationships in the U.S. television measurement market related to television tuning analytics utilizing return path data (the "RPD Business"). The RPD Business is reported as a component of TV Everywhere™, expands our product and service offerings and provides us with a platform from which we can pursue new business opportunities.

The purchase price for the RPD Business consisted of $0.2 million cash and 1,526,790 shares of unregistered common stock with a fair market value of $114.1 million. We also entered into a Transition Services Agreement that provides certain services to us on a transitional basis.

The purchase consideration was allocated based on the estimated fair value of the tangible and identifiable intangible assets acquired and liabilities assumed. The excess of the purchase price over the estimated fair value of the tangible and intangible assets acquired and liabilities assumed was allocated to goodwill. In performing our purchase price allocation, we considered, among other factors, our intention for future use of the acquired assets, analysis of historical financial performance and estimates of future performance of the RPD Business. The fair value of the intangible assets was calculated primarily using an income approach with estimates

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and assumptions provided by management. The rates utilized to discount net cash flows to their present values were based on a range of discount rates of 13.5% to 15.6%.

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 . Pursuant to this agreement, on December 1, 2014, in connection with the closing of the acquisition of the RPD Business, we issued 943,834 shares of unregistered common stock in exchange for $55.8 million in cash. As of the date of issuance, the difference between the fair market value of the shares issued and the cash received was $20.3 million and has been recorded as additional purchase consideration and allocated to goodwill.

The assets purchased and liabilities assumed of the RPD business have been reflected in our Condensed Consolidated Balance Sheet as of December 31, 2014, and the results of operations of the RPD business are included in our Condensed Consolidated Statement of Operations since the closing date of the acquisition. We are in the process of finalizing the purchase accounting related to the acquisition, including goodwill and other intangible assets; thus, the estimated amounts presented herein are subject to change. The preliminary allocation of the purchase price is as follows (dollars in thousands):

		Useful Life
Accounts receivable	$821	—
Goodwill	129,406	Indefinite
Other intangible assets:		
Customer relationships	5,000	10 years
	135,227	
Accounts Payable	(543)	—
Deferred revenue	(71)	—
	(614)	
	$134,613	

Goodwill of $129.4 million was recorded as a result of consideration paid in excess of the fair value of the net tangible and intangible assets acquired and liabilities assumed, which resulted from the expected future strategic position by eliminating a competitor in the market and anticipated future synergies. Goodwill is not amortized, and will be evaluated annually for potential impairment. In the U.S. goodwill is deductible for income tax purposes.

For the three months ended December 31, 2014, we included $0.8 million in revenue and $0.5 million in net losses related to the RPD Business since the acquisition date. For the three and nine months ended December 31, 2014, we incurred $0.7 million and $1.0 million of acquisition and transition costs, respectively, and for the three months ended December 31, 2014, we incurred amortization expense of $42,000 relating to the intangible assets acquired. These costs are included in selling, general and administrative expenses in our Condensed Consolidated Statements of Operations.

Unaudited preliminary pro forma results of operations as if the RPD Business had been acquired as of April 1, 2013, were as follows (in thousands, except for per share amounts):

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2014	2013	2014	2013
Total revenue	$28,322	$21,195	$80,253	$59,077
Net loss attributable to Rentrak Corporation	(1,868)	(1)	(1,952)	(982)
Basic earnings per share	(0.12)	—	(0.13)	(0.07)
Diluted earnings per share	(0.12)	—	(0.12)	(0.07)

This pro forma information is still in the process of finalization; thus, the estimated amounts presented herein are subject to change.

The Company also entered into agreements with GroupM and The Kantar Group, which are related WPP entities, to provide ongoing TV Essentials® and OnDemand Essentials® services. We have evaluated the terms and economic benefits of these agreements and have concluded these are not part of the consideration transferred for the RPD Business. As such, we have accounted for these separately from the business combination and in accordance with our revenue recognition policies. Overall,

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we believe this acquisition and the additional agreements give us better scale to rapidly innovate our products and services in the U.S., and we expect the agreements to produce multiple long-term revenue streams as a result of the company's expanded relationship with GroupM and WPP.

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, 2014
Beginning balance	$7,034
Acquisition of RPD Business	129,406
Currency translation	(313)
Ending balance	$136,127

	Year Ended March 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 Period	December 31, 2014	March 31, 2014
Customer relationships	6 to 10 years	$12,530	$7,941
Accumulated amortization		(3,750)	(3,251)
		8,780	4,690
Trade names	2 to 3 years	75	75
Accumulated amortization		(67)	(58)
		8	17
Existing technology	4 years	334	334
Accumulated amortization		(158)	(108)
		176	226
Patents	20 years	503	419
Accumulated amortization		(46)	(29)
		457	390
Order backlog	1 year	2	2
Accumulated amortization		(2)	(1)
		—	1
Global customer relationships	Indefinite	7,400	7,400
Total		$16,821	$12,724

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

	Nine Months Ended December 31,	
	2014	2013
Customer relationships	$736	$649
Trade names	9	5
Existing technology	50	25
Patents	17	12
Order backlog	1	1
Currency translation	(237)	142
	$576	$834

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

Fiscal	Customer Relationships	Trade names	Existing Technology	Patents
Remainder of Fiscal 2015	$363	$3	$17	$6
2016	1,452	5	67	25
2017	1,452	—	67	25
2018	1,338	—	25	25
2019	869	—	—	25
Thereafter	3,306	—	—	351
	$8,780	$8	$176	$457

Note 8. Income Taxes

Our effective tax rates are determined by excluding certain jurisdictions with net losses. Our tax provision for the first nine months of Fiscal 2015 was 18.5% 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 nine months of Fiscal 2014 was a benefit of 31.2%, 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.

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Note 10. Line of Credit

On December 1, 2014, we renewed our $15.0 million revolving line of credit, extending the maturity to February 1, 2017. Interest accrues on outstanding balances under the line of credit at a rate equal to LIBOR plus 2.0 percent and will be adjusted on a quarterly basis, beginning as of March 31, 2015, based on agreed upon criteria. The maximum interest rate that can be charged is LIBOR plus 2.0 percent and the minimum rate is LIBOR plus 1.5 percent. Fees on the unused portion of the line are accrued at 0.15 percent per annum, and will also be adjusted on a quarterly basis. The maximum fee on the unused portion of the line is 0.25 percent per annum and the minimum rate is 0.10 percent per annum. The agreement provides for letters of credit to be issued, provided that at any time the amount of outstanding letters of credit shall not exceed $1.0 million. The letters of credit are reserved under the line of credit and will reduce the amount available for borrowing. At December 31, 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 the agreement. The credit line is secured by substantially all of our assets and includes certain liquidity, asset and financial covenants. As of December 31, 2014, we were in compliance with those covenants.

Note 11. Subsequent Events

We have considered all events that have occurred subsequent to December 31, 2014 and through the date of this filing and, except as set forth below, determined that no additional disclosure is required.

On February 3, 2015, we completed the sale of the PPT® business to Vobile, the worldwide leader in video and audio content protection, measurement and monetization services, for a total purchase price of $7.0 million. We will receive $1.0 million in cash, a $1.0 million note due in six months and Vobile preferred stock with a $5.0 million liquidation preference.

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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 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,” “expe “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; 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, 2015

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 SEC on June 6, 2014 for a discussion of reasons why our actual results may differ materially from our forward-looking statements. Please refer to Item 1A. in this Quarterly Report on Form 10-Q for additional information regarding our Risk Factors. 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.

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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 125,000 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. On February 3, 2015, we finalized our sale of the PPT® business. See additional information in Note 11 of the Notes to the Condensed Consolidated Financial Statements.

In December 2014, we acquired the U.S. television measurement business related to television tuning analytics utilizing return path data (the "RPD Business") of WPP's Kantar business unit. We also entered into agreements with GroupM and The Kantar Group, which are related WPP entities. Under the agreements, Rentrak will integrate its national and local TV measurement with a number of Kantar's U.S.-based services that focus on digital media, advertising expenditure and purchase data. The integration will provide advertisers, agencies, TV networks, multichannel video program distributors ("MVPDs") and local television stations throughout the U.S. with even more powerful tools to understand consumers' purchasing habits and the ability to link TV viewing habits with purchase and other behavior in the United States. We believe these transactions give us better scale to rapidly innovate our products and services in the U.S., and we expect the agreements to produce multiple long-term revenue streams as a result of the company's expanded relationship with GroupM and WPP. See Note 6 of Notes to Condensed Consolidated Financial Statements.

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 patented software systems and business processes into two broad areas within the entertainment industry, which we refer to as TV Everywhere™ and Movies Everywhere™. 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.

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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™ services, are:

- TV Everywhere,™ which includes TV Essentials® and StationView Essentials;™
- Movies Everywhere,™ which includes domestic and international Box Office Essentials®, PostTrak® and PreAct;™
- OnDemand Everywhere®, which includes OnDemand Essentials® 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.

As noted above, in December 2014, we acquired the U.S. television measurement business related to television tuning analytics utilizing return path data (the "RPD Business") of WPP's Kantar business unit (see Note 6 of Notes to Condensed Consolidated Financial Statements). The financial results of the RPD Business, from the date of acquisition, are included within our TV Everywhere™ line of business. Acquisition costs are included in selling, general & administrative expenses on our Condensed Consolidated Statements of Operations for the three and nine month periods ended December 31, 2014.

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Results of Operations

Our results are as follows (dollars in thousands):

	Three Months Ended December 31,[1]				Nine Months Ended December 31, [1]			
	2014		2013		2014		2013	
	Dollars	% of revenue	Dollars	% of revenue	Dollars	% of revenue	Dollars	% of revenue
Revenue	$26,874	100.0 %	$19,517	100.0 %	$74,459	100.0 %	$54,042	100.0 %
Cost of revenue[2]	9,538	35.5	6,820	34.9	25,182	33.8	19,938	36.9
Gross margin	17,336	64.5	12,697	65.1	49,277	66.2	34,104	63.1
Operating expenses:								
Selling, general and administrative[2][3]	16,383	61.0	12,274	62.9	43,761			