VITAL IMAGES INC
Form 10-Q
November 15, 2002

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# FORM 10-Q

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

**For the quarterly period ended September 30, 2002**

**OR**

**o 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 0-22229**

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# VITAL IMAGES, INC.

(Exact name of registrant as specified in its charter)

| **Minnesota** | **42-1321776** |
|---|---|

| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| --- | --- |
| **3300 Fernbrook Lane N., Suite 200 Plymouth, Minnesota** | **55447** |
| (Address of principal executive offices) | (Zip Code) |

**(763) 852-4100**
(Registrant s telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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On November 8, 2002, there were 8,978,574 shares of the Registrant s common stock, par value $.01 per share, outstanding.

**VITAL IMAGES, INC.**

**Form 10-Q**

**September 30, 2002**

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**VITAL IMAGES, INC.**
**BALANCE SHEETS**
**AS OF SEPTEMBER 30, 2002 AND DECEMBER 31, 2001**
**(Unaudited)**

| | September 30, 2002 | December 31, 2001 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 5,119,780 | $ 6,830,906 |
| Marketable securities | 3,909,465 | |
| Accounts receivable, net of allowance for doubtful accounts of $218,000 and $185,000 as of September 30, 2002 and December 31, 2001, respectively | 5,784,371 | 3,637,954 |
| Prepaid expenses and other current assets | 706,819 | 557,833 |
| Total current assets | 15,520,435 | 11,026,693 |
| Property and equipment, net | 1,943,030 | 1,552,116 |
| Licensed technology, net | 600,000 | 690,000 |
| TOTAL ASSETS | $ 18,063,465 | $ 13,268,809 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 938,156 | $ 864,385 |
| Accrued payroll | 1,282,680 | 1,326,214 |
| Deferred revenue | 3,736,654 | 2,199,465 |
| Accrued royalties | 461,482 | 362,637 |
| Other current liabilities | 239,898 | 179,610 |
| Total current liabilities | 6,658,870 | 4,932,311 |
| Deferred revenue | 184,156 | 285,709 |
| Total liabilities | 6,843,026 | 5,218,020 |
| Shareholders equity: | | |
| Preferred stock: $.01 par value; 5,000,000 shares authorized; none issued or outstanding as of September 30, 2002 and December 31, 2001 | | |
| Common stock: $.01 par value; 20,000,000 shares authorized; 8,963,459 and 8,186,092 shares issued and outstanding as of September 30, 2002 and December 31, 2001, respectively | 89,635 | 81,861 |
| Additional paid-in capital | 31,635,594 | 28,846,906 |
| Accumulated deficit | (20,504,790) | (20,877,978) |
| Total shareholders equity | 11,220,439 | 8,050,789 |

| | | | | |
|---|---|---|---|---|
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ | 18,063,465 | $ | 13,268,809 |

(The accompanying notes are an integral part of the interim financial statements.)

**VITAL IMAGES, INC.**
**STATEMENTS OF OPERATIONS**
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001**

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (Unaudited) | | (Unaudited) | |
| Revenue: | | | | |
| License fees | $ 4,022,420 | $ 2,575,648 | $ 10,315,561 | $ 7,072,506 |
| Maintenance and services | 836,482 | 547,290 | 2,678,388 | 1,525,344 |
| Hardware | 733,987 | 510,458 | 1,916,664 | 2,048,176 |
| Total revenue | 5,592,889 | 3,633,396 | 14,910,613 | 10,646,026 |
| | | | | |
| Cost of revenue: | | | | |
| License fees | 307,388 | 194,262 | 791,210 | 407,746 |
| Maintenance and services | 208,379 | 148,339 | 900,636 | 409,163 |
| Hardware | 566,091 | 391,133 | 1,473,374 | 1,631,794 |
| Total cost of revenue | 1,081,858 | 733,734 | 3,165,220 | 2,448,703 |
| | | | | |
| Gross margin | 4,511,031 | 2,899,662 | 11,745,393 | 8,197,323 |
| | | | | |
| Operating expenses: | | | | |

—

Net loss attributable to Rentrak Corporation
$
(1,814
)

$
(1,947
)

$
(20,589
)

$
(1,810
)
Basic net loss per share
$
(0.15

)

$
(0.18
)

$
(1.77
)

$
(0.16
)
Diluted net loss per share
$
(0.15
)

$
(0.18
)

$
(1.77
)

$
(0.16
)
Shares used in per share calculations:

Basic
11,996

11,102

11,634

11,205

Diluted
11,996

11,102

11,634

11,205

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 reference)

| | For the Three Months Ended December 31, | | For the Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net loss | $(1,845) | $(1,947) | $(20,620) | $(1,810) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | 93 | (239) | (6) | (521) |
| Unrealized holding (gains) losses on available for sale securities (1) | (30) | (25) | (8) | 60 |
| Recognition of previously unrealized gains on available for sale securities included in net loss(2) | — | (14) | (72) | (21) |
| Other comprehensive income (loss) | 63 | (278) | (86) | (482) |
| Comprehensive loss | (1,782) | (2,225) | (20,706) | (2,292) |
| Comprehensive loss attributable to noncontrolling interest | (31) | — | (31) | — |
| Comprehensive loss attributable to Rentrak Corporation | $(1,751) | $(2,225) | $(20,675) | $(2,292) |

(1) For the three months ended December 31, 2012 and 2011, the amounts are net of deferred taxes of $15,000 and $18,000, respectively, and for the nine months ended December 31, 2012 and 2011, the amounts are net of deferred taxes of zero and $44,000, respectively.

(2) For the three months ended December 31, 2012 and 2011, the amounts are net of deferred tax benefit of zero and $11,000, respectively, and for the nine months ended December 31, 2012 and 2011, the amounts are net of deferred tax benefit of $53,000 and $15,000, respectively.

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, | |
|---|---|---|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net loss | $(20,620) | $(1,810) |
| Adjustments to reconcile net loss to net cash flows provided by operating activities: | | |
| Depreciation and amortization | 3,607 | 3,233 |
| Stock-based compensation | 17,781 | 813 |
| Deferred income taxes | (3) | 1,407 |
| (Gain) loss on disposition of assets | (26) | 2 |
| Realized gain on marketable securities | (196) | (37) |
| Interest on note payable | 19 | 19 |
| Adjustment to allowance for doubtful accounts | 63 | 125 |
| (Increase) decrease in: | | |
| Accounts and notes receivable | 1,906 | 3,433 |
| Taxes receivable and prepaid taxes | — | 923 |
| Other assets | (291) | 304 |
| Increase (decrease) in: | | |
| Accounts payable | 1,185 | (2,827) |
| Taxes payable | (78) | (596) |
| Accrued liabilities and compensation | (1,918) | (10) |
| Deferred revenue | (178) | 299 |
| Deferred rent | (148) | 407 |
| Net cash provided by operating activities | 1,103 | 5,685 |
| Cash flows from investing activities: | | |
| Purchase of marketable securities | (22,987) | (15,903) |
| Sale of marketable securities | 23,793 | 15,371 |
| Proceeds from the sale of assets | 47 | — |
| Payments made to develop intangible assets | (113) | — |
| Purchase of property and equipment | (4,304) | (3,355) |
| Net cash used in investing activities | (3,564) | (3,887) |
| Cash flows from financing activities: | | |
| Proceeds from note payable | — | 500 |
| Contributions from noncontrolling interest | 1,020 | — |
| Issuance of common stock | 551 | 60 |
| Repurchase of common stock | — | (4,341) |
| Net cash provided by (used in) financing activities | 1,571 | (3,781) |
| Effect of foreign exchange translation on cash | 49 | (618) |
| Decrease in cash and cash equivalents | (841) | (2,601) |
| Cash and cash equivalents: | | |
| Beginning of period | 5,526 | 3,821 |
| End of period | $4,685 | $1,220 |
| Supplemental non-cash information: | | |
| Capitalized stock-based compensation | $348 | $253 |

| | | |
|---|---|---|
| Common stock used to pay for option exercises | — | 306 |

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 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, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2013 (“Fiscal 2013”). The Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes thereto included in our 2012 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 after elimination of all intercompany accounts and transactions. We have established a Chinese joint venture, Sinotrak, and hold a 49% ownership interest in this variable interest entity. Sinotrak has been included in our Condensed Consolidated Financial Statements 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 parties and costs associated with its formation. The equity interests of the noncontrolling party are reported as a noncontrolling interest in our Condensed Consolidated Balance Sheets as of December 31, 2012. The noncontrolling party’s share of the expenses for the three and nine months ending December 31, 2012 are included in “Net loss attributable to noncontrolling interests” on our Condensed Consolidated Statements of Operations.

Note 2. Net Income (Loss) Per Share
Following is a reconciliation of the shares used for the basic earnings (loss) per share (“EPS”) and diluted EPS calculations (in thousands, except footnote reference):

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Basic EPS: | | | | |
| Weighted average number of shares of common stock outstanding and vested deferred stock units (“DSUs”)[1] | 11,996 | 11,102 | 11,634 | 11,205 |
| Diluted EPS: | | | | |
| Effect of dilutive stock options and unvested DSUs | — | — | — | — |
| | 11,996 | 11,102 | 11,634 | 11,205 |
| Total outstanding options not included in diluted EPS as they would be antidilutive | 2,851 | 2,078 | 2,851 | 2,078 |
| Performance-based grants not included in diluted EPS | 270 | 318 | 270 | 318 |

(1) Includes 151,554 and 96,332 vested cumulative DSUs, respectively, for the three months ended December 31, 2012 and 2011 and 138,838 and 83,174 vested cumulative DSUs, respectively, for the nine months ended December 31, 2012 and 2011 that will not be issued until the directors holding the DSUs retire from our Board of Directors.

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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 Blockbuster Entertainment, Netflix and Redbox, to studios. During the fourth quarter of Fiscal 2012, management moved Digital Download Essentials and Home Entertainment Essentials from the HE Division to the AMI Division effective April 1, 2011 as a result of a change in our internal management reporting structure. Prior period amounts have been restated to conform to this change. Corporate and other expenses not allocated to a specific segment are included as “Other” in the table below.

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

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

| | AMI | HE | Other | Total |
|---|---|---|---|---|
| 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) |
| Three Months Ended December 31, 2011 | | | | |
| Sales to external customers | $10,393 | $11,818 | $— | $22,211 |
| Gross margin | 6,868 | 3,753 | — | 10,621 |
| Income (loss) from operations | 1,100 | 2,019 | (4,093) | (974) |
| 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) |
| Nine Months ended December 31, 2011 | | | | |
| Sales to external customers | $29,775 | $36,696 | $— | $66,471 |
| Gross margin | 19,174 | 12,068 | — | 31,242 |
| Income (loss) from operations | 3,773 | 6,929 | (11,814) | (1,112) |

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Note 4. Stock-Based Compensation

The following table summarizes our stock based grants in Fiscal 2013:

| | Three Months Ended December 31, 2012 | Nine Months Ended December 31, 2012 |
|---|---|---|
| Option grants[1]: | | |
| Shares granted from 2011 Incentive Plan | — | 893,674 |
| Fair market value on date of grant - high | $— | $20.18 |
| Fair market value on date of grant - low | $— | $16.97 |
| Expiration period, in years | | 10 |
| Vesting period, in years | | 5 |
| Compensation information related to options granted in period[2] (in thousands): | | |
| Total valuation, recognized over vesting period | $— | $8,284 |
| Total expected expense to be recognized in Fiscal 2013 | $— | $1,671 |
| Expense recognized as a component of selling and administrative expense | $— | $1,241 |
| Expense capitalized in property and equipment, net [3] | $— | $168 |
| | | |
| DSUs: | | |
| DSUs granted from 2011 Incentive Plan to non-executive directors | — | 34,014 |
| Vesting period, in months | | 11 |
| Compensation information related to DSUs granted in period (in thousands): | | |
| Total fair market value, recognized over vesting period | $— | $600 |
| Total expected expense to be recognized in Fiscal 2013 | $— | $382 |
| Expense recognized as a component of selling and administrative expense | $— | $218 |

(1) Shares granted and compensation expense amounts for nine month period are shown net of cancellations.

(2) Compensation amounts based on Black-Scholes valuations.

(3) 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.

Cancellation of Performance-Based Stock Options

During the first quarter of Fiscal 2013, the Compensation Committee of our Board of Directors determined that performance requirements relating to vesting of certain stock-based awards would not be achieved. Accordingly, 47,450 performance-based stock option awards were canceled at the direction of our Board of Directors. The cancellation of these awards had no effect on our results of operations.

Amendment to Stock-Based Award Agreement

In October 2012, the expiration date of a restricted stock unit (“RSU”) award granted to an executive officer was extended by two years. The fair value of the modification to the RSU award was $0.4 million, based on a Monte Carlo simulation and will be recognized over the requisite service period. Approximately $0.1 million related to this modification will be recognized in Fiscal 2013, of which $44,000 was recognized during the third quarter of Fiscal 2013. We allocated $26,000 of that cost to selling and administrative expense and capitalized the remainder as part of IT development costs associated with our AMI Essentials™ lines of business.

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.

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

| | December 31, 2012 | | March 31, 2012 | |
|---|---|---|---|---|
| | Fair Value | Input Level | Fair Value | Input Level |
| Available-for-sale marketable securities | | | | |
| Municipal tax exempt bond funds | $— | | $22,227 | Level 1 |
| Adjustable rate government funds | $21,483 | 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 2013.

Marketable securities, all of which were classified as "available-for-sale" at December 31, 2012 and March 31, 2012, consisted of the following (dollars in thousands):

| | December 31, 2012 | March 31, 2012 |
|---|---|---|
| Available-for-sale marketable securities | | |
| Amortized cost | $21,491 | $22,101 |
| Gross unrecognized holding gains | — | 126 |
| Gross unrecognized holding losses | (8) | — |
| Fair value | $21,483 | $22,227 |

Note 6. Goodwill and Other Intangible Assets

Goodwill

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

| | Nine Months Ended December 31, 2012 | | |
|---|---|---|---|
| | AMI | HE | Total |
| Beginning balance | $4,570 | $531 | $5,101 |
| Currency translation | (16) | — | (16) |
| Ending balance | $4,554 | $531 | $5,085 |

| | Year Ended March 31, 2012 | | |
|---|---|---|---|
| | AMI | HE | Total |
| Beginning balance | $4,691 | $531 | $5,222 |
| Currency translation | (121) | — | (121) |
| Ending balance | $4,570 | $531 | $5,101 |

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Other Intangible Assets

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

| | Amortization Period | December 31, 2012 | March 31, 2012 |
|---|---|---|---|
| Local relationships | 7 to 10 years | $7,170 | $7,167 |
| Accumulated amortization | | (2,090) | (1,475) |
| | | 5,080 | 5,692 |
| Tradenames | 1 to 3 years | 50 | 50 |
| Accumulated amortization | | (49) | (36) |
| | | 1 | 14 |
| Existing technology | 6 months | 66 | 66 |
| Accumulated amortization | | (66) | (66) |
| | | — | — |
| Patents | 20 years | 174 | 61 |
| Accumulated amortization | | (8) | (2) |
| | | 166 | 59 |
| Global relationships | Indefinite | 7,400 | 7,400 |
| Total | | $12,647 | $13,165 |

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

| | Nine Months Ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Local relationships | $604 | $626 |
| Tradenames | 13 | 13 |
| Existing technology | — | 33 |
| Patents | 5 | 1 |
| Currency translation | 12 | (57) |
| | $634 | $616 |

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

| Fiscal | Local Relationships | Tradenames | Patents |
|---|---|---|---|
| Remainder of Fiscal 2013 | $210 | $1 | $4 |
| 2014 | 840 | — | 8 |
| 2015 | 841 | — | 8 |
| 2016 | 841 | — | 8 |
| 2017 | 851 | — | 8 |
| Thereafter | 1,497 | — | 130 |
| | $5,080 | $1 | $166 |

Note 7. Amendment to DISH Network, L.L.C. (”DISH”) Agreement

In the second quarter of Fiscal 2013, we amended and extended our agreement with DISH. Under the terms of the previous arrangement, we provided DISH with a stock-based compensation arrangement which entitled DISH to a cash payment based on the increase in price of our common stock over a strike price of $15.48 (the “SAR”). The arrangement provided that DISH would receive three equal annual installments of 200,000 SARs. We revalued this

award at the end of every reporting period. Additionally,

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the previous agreement contained a provision that provided for payment of a percentage of predefined net profits of the TV Essentials™ line of business. However, no amounts were earned under the previous net profit sharing arrangement. In exchange for canceling the SAR and to compensate DISH for past services, in August 2012, we paid DISH $5.8 million and issued DISH 700,000 shares of common stock valued at $13.2 million. As of March 31, 2012, we had accrued $3.2 million as a component of accrued compensation in our Condensed Consolidated Balance Sheets relating to the SAR. In the nine month period ended December 31, 2012, the additional expense related to the amendment was $15.8 million and is reflected in selling and administrative expense in our Condensed Consolidated Statements of Operations.

The new amendment extends the agreement through at least February 2016, includes predefined net profit sharing provisions of portions of our TV Essentials™ line of business, and specifies minimum payments relating to those provisions, which will be expensed as a component of cost of sales in our Condensed Consolidated Statements of Operations as they are earned by DISH.

Note 8. Line of Credit

We currently have a revolving line of credit for $15.0 million, that matures on December 1, 2013. Interest accrues on outstanding balances under the line of credit at a rate equal to LIBOR plus 1.5 percent. The credit line is secured by substantially all of our assets and includes certain financial covenants. In August 2012, the agreement was amended to allow 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, 2012, 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.

On February 5, 2013, the agreement was amended, extending its maturity to December 1, 2014. Also, as of January 1, 2013, the fee we will incur on the unused portion will be 0.2 percent per annum. The remaining terms are effective as of December 1, 2012, and interest will accrue on outstanding balances under the line of credit at a rate equal to LIBOR plus 2.0 percent. The amendment contains certain liquidity, asset and financial covenants and, as of December 31, 2012, we were in compliance with those covenants.

Note 9. Income Taxes

Our effective tax rate for the first nine months of Fiscal 2013 was determined by excluding certain jurisdictions with net losses. As a result, the tax provision for the first nine months of Fiscal 2013 was 0.9% and was due to taxable income in profitable jurisdictions.

Our effective tax rate for the first nine months of Fiscal 2012 was a provision of 136.9% and was negatively affected by the recording of a $1.2 million valuation allowance to fully reserve against our deferred tax assets.

Note 10. New Accounting Guidance

ASU 2012-02

In July 2012, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2012-02, “Testing Indefinite-Lived Intangible Assets for Impairment” (“ASU 2012-02”). ASU 2012-02 amends the guidance on testing indefinite-lived intangible assets, other than goodwill, for impairment. Under the new guidance, an entity testing an indefinite-lived asset for impairment has the option of performing a qualitative assessment before calculating the fair value of an asset. If the entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not impaired, the entity would be required to calculate the fair value of the asset. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, and early adoption is permitted. We do not expect the adoption of ASU 2012-02 to have a material effect on our financial position, results of operations, or cash flows.

ASU 2011-08

In September 2011, the FASB issued ASU No. 2011-08, “Testing Goodwill for Impairment” (“ASU 2011-08”). ASU 2011-08 simplifies the goodwill impairment assessment by permitting a company to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If the conclusion is that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the company would be required to conduct the current two-step goodwill impairment test. Otherwise, it would not need to apply the two-step test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The adoption of this guidance, effective April 1, 2012, did not have a material effect on our financial position, results of operations, or cash flows.

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Note 11. Subsequent Events
We have considered all events that have occurred subsequent to December 31, 2012 and through the date of this filing and, except as set forth below, determined that no additional disclosure is required.

On February 5, 2013, we amended our line of credit. Please refer to Note 8 of the Notes to Condensed Consolidated Financial Statements.

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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 (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 v 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 declines in Home Entertainment ("HE") Division revenue and increases in our Entertainment Essentials™ revenue as a result of further investments, the addition of new retailers 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;
- the impact of changes in the timing of when major studios make their new movie releases available to "brick and mortar" rental outlets versus all other retail and rental options (mass merchants, kiosk, by-mail);
- 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;
- the impact of changes in the timing of movie releases and the relation between the timing of the release of movies to home video to their theatrical release;
- increased spending on property and equipment in Fiscal 2013 for the capitalization of internally developed software, computer equipment, renovations to our corporate offices 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, 2013.

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”);
- continue to obtain home entertainment content products (DVDs, Blu-ray Discs, etc.) (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 our relationships with our significant Program Suppliers;
- manage and/or offset any cost increases;

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- add new 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, 2012 ("Fiscal 2012") as filed with the Securities and Exchange Commission on June 8, 2012 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 and video game product from traditional "brick and mortar", online and kiosk retailers. During the fourth quarter of Fiscal 2012, management moved Digital Download Essentials and Home Entertainment Essentials from the HE Division to the AMI Division effective April 1, 2011 as a result of a change in our internal reporting structure and all prior periods have been restated to reflect this change.

Our AMI Division encompasses media measurement services across multiple screens and platforms and is delivered via web-based products within our Entertainment Essentials™ lines of business. These services, offered primarily on a recurring subscription basis, capture consumer viewing data, which is 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 and on demand 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 national chains, the opportunity to acquire new inventory, and our PPT System enables retailers everywhere, regardless of size, the ability to increase both the depth and breadth of their inventory, better satisfy consumer demand and more effectively compete 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 $9.8 million, or 32.8%, in the first nine months of Fiscal 2013 compared to the first nine months of Fiscal 2012.

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The AMI Division lines of business, which we refer to as Entertainment Essentials™ services, are:

- Box Office Essentials™,
- OnDemand Everywhere, which includes OnDemand Essentials™ and related products, and
- TV Essentials™, which includes StationView Essentials.

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

HE Division

The financial results from the HE Division continue to be negatively affected by the changing dynamics in the home video rental market. This market is highly competitive 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 or cable provider. Our PPT System focuses primarily on the traditional "brick and mortar" retailer and provides those Participating Retailers the opportunity to increase both the depth and breadth of their inventory, better satisfy consumer demand and more effectively compete 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, while others, such as Blockbuster Entertainment ("Blockbuster") have seen significant store closures. Blockbuster also recently announced more closures which would bring the chain to approximately 500 retail locations. As a result of these market changes, we believe 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 a decline in our revenue. However, during the quarter, we added a major rental chain to our list of PPT customers and will provide units to that retailer from at least one major Program Supplier. While we expect to see additional revenue in upcoming quarters as a result of adding this new Participating Retailer, it is too soon to predict what impact, if any, this will have on total revenue in the future.

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 and the development of new service offerings. During the quarter, a former Program Supplier, Warner Bros., returned to the PPT System, and we were able to begin offering their content to our Participating Retailers again. We are also continually seeking to develop business relationships with new Program Suppliers. 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 revenues include fees generated when Participating Retailers rent Units or sell previously-viewed rental Units to consumers and upfront fees generated when Units are distributed to Participating Retailers. 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
- 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, 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 ) |
| Three Months Ended December 31, 2011 | | | | |
| Sales to external customers | $ 10,393 | $ 11,818 | $ — | $ 22,211 |
| Gross margin | 6,868 | 3,753 | — | 10,621 |
| Income (loss) from operations | 1,100 | 2,019 | (4,093 ) | (974 ) |
| 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 ) |
| Nine Months Ended December 31, 2011 | | | | |
| Sales to external customers | $ 29,775 | $ 36,696 | $ — | $ 66,471 |
| Gross margin | 19,174 | 12,068 | — | 31,242 |
| Income (loss) from operations | 3,773 | 6,929 | (11,814 ) | (1,112 ) |

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

Revenue

Revenue increased $2.7 million, or 12.3%, to $24.9 million in the third quarter of Fiscal 2013 compared to $22.2 million in the third quarter of Fiscal 2012. Revenue increased $4.2 million, or 6.3%, to $70.7 million in the nine month period ended December 31, 2012 compared to $66.5 million in the nine month period ended December 31, 2011. The increases in revenue were due to increases in AMI Division revenue, primarily related to growth in our existing lines of business, partially offset by declines in revenue from our HE Division. 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.

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

| | Three Months Ended December 31, | | Dollar Change | % Change |
|---|---|---|---|---|
| | 2012 | 2011 | | |
| Box Office Essentials™ | $6,089 | $5,473 | $616 | 11.3% |
| OnDemand Everywhere | 3,066 | 2,625 | 441 | 16.8% |
| TV Essentials™ | 4,557 | 2,295 | 2,262 | 98.6% |
| | $13,712 | $10,393 | $3,319 | 31.9% |
| | Nine Months Ended December 31, | | Dollar Change | % Change |
| | 2012 | 2011 | | |
| Box Office Essentials™ | $17,793 | $15,689 | $2,104 | 13.4% |
| OnDemand Everywhere | 9,318 | 8,077 | 1,241 | 15.4% |
| TV Essentials™ | 12,442 | 6,009 | 6,433 | 107.1% |
| | $39,553 | $29,775 | $9,778 | 32.8% |

The increases in Box Office Essentials™ revenue in the Fiscal 2013 periods were primarily due to rate increases for existing clients and the addition of new clients.

The increases in OnDemand Everywhere revenue in the Fiscal 2013 periods were primarily due to rate increases for existing clients and increased custom reporting projects.

The increases in TV Essentials™ revenue in the Fiscal 2013 periods were primarily due to the addition of new clients and rate increases for existing clients.

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

| | Three Months Ended December 31, | | Dollar Change | | % Change |
|---|---|---|---|---|---|
| | 2012 | 2011 | | | |
| PPT | $10,666 | $10,690 | $(24 | ) | (0.2)% |
| DRS | 570 | 1,128 | (558 | ) | (49.5)% |
| | $11,236 | $11,818 | $(582 | ) | (4.9)% |
| | Nine Months Ended December 31, | | Dollar Change | | % Change |
| | 2012 | 2011 | | | |
| PPT | $29,051 | $32,513 | $(3,462 | ) | (10.6)% |
| DRS | 2,058 | 4,183 | (2,125 | ) | (50.8)% |
| | $31,109 | $36,696 | $(5,587 | ) | (15.2)% |

The decreases in PPT revenue in the Fiscal 2013 periods were primarily due to fewer Participating Retailers, fewer available Units and lower box office performance from theatrical titles in the Fiscal 2013 periods compared to the Fiscal 2012 periods, in part due to consumers' focus on the summer Olympics during the second quarter of Fiscal 2013 as well as continued changing market conditions. Also, during the third quarter of Fiscal 2012, Warner Bros. decided it would release its video content in the retail channel before offering it to the rental market. This had a negative effect on our PPT business during the first nine months of Fiscal 2013. However, during the third quarter, Warner Bros. returned to its previous distribution strategy of providing "brick and mortar" retailers with new release content on the

initial street date, and we were able to offer some Warner Units to our Participating Retailers. We expect this change will have a positive impact on our revenue in the future, but it is too soon to predict the magnitude of the impact. Additionally, during the third quarter of Fiscal 2013, we added a significant Participating Retailer to our PPT System which contributed to an overall increase in Units shipped during the quarter and helped to narrow the decline in PPT revenue. We also expect higher volumes and increased revenue from this Participating Retailer going forward, but since this is dependent on various factors, like the availability and quality of Units, we are unable to estimate the how much the increase will be, if any.

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The decreases in DRS revenue in the Fiscal 2013 periods were due to fewer transactions processed as a result of Warner Bros.' decision mentioned above, as well as a decline in the number of direct retailers from which to track content performance for Program Suppliers. We believe the modification of Warner Bros.' distribution strategy noted above should increase our DRS revenue, but it is too soon to predict what impact, if any, this will have on our revenue in the future.

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 $2.3 million, or 19.5%, in the third quarter of Fiscal 2013 compared to the third quarter of Fiscal 2012, and increased $2.1 million, or 6.0%, in the first nine months of Fiscal 2013 compared to the same period of Fiscal 2012.

AMI Division

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

| | Three Months Ended December 31, | | Dollar Change | % Change |
|---|---|---|---|---|
| | 2012 | 2011 | | |
| Costs related to: | | | | |
| Amortization of internally developed software | $667 | $551 | $116 | 21.1% |
| Call center operation | 1,362 | 1,177 | 185 | 15.7% |
| Obtaining, cleansing and processing data | 3,473 | 1,797 | 1,676 | 93.3% |
| | $5,502 | $3,525 | $1,977 | 56.1% |
| | Nine Months Ended December 31, | | Dollar Change | % Change |
| | 2012 | 2011 | | |
| Costs related to: | | | | |
| Amortization of internally developed software | $1,914 | $1,595 | $319 | 20.0% |
| Call center operation | 3,872 | 3,598 | 274 | 7.6% |

| | | | | |
|---|---|---|---|---|
| Obtaining, cleansing and processing data | 9,476 | 5,408 | 4,068 | 75.2% |
| | $15,262 | $10,601 | $4,661 | 44.0% |

The increase in cost of sales within the AMI Division in the third quarter of Fiscal 2013 compared to the third quarter of Fiscal 2012 resulted primarily from expanding market coverage with existing data supplier agreements, the addition of new data supplier agreements and the amendment to our data supplier agreement with 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. The increase in the first nine months of Fiscal 2013 compared to the same period of Fiscal 2012 also reflects costs associated with the DISH amendment.

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HE Division

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

| | Three Months Ended December 31, | | Dollar Change | % Change |
|---|---|---|---|---|
| | 2012 | 2011 | | |
| Costs related to: | | | | |
| Transaction fees | $5,879 | $5,437 | $442 | 8.1% |
| Sell-through fees | 1,239 | 1,517 | (278) | (18.3)% |
| Other | 1,227 | 1,111 | 116 | 10.4% |
| | $8,345 | $8,065 | $280 | 3.5% |

| | Nine Months Ended December 31, | | Dollar Change | % Change |
|---|---|---|---|---|
| | 2012 | 2011 | | |
| Costs related to: | | | | |
| Transaction fees | $15,339 | $16,775 | $(1,436) | (8.6)% |
| Sell-through fees | 3,771 | 4,547 | (776) | (17.1)% |
| Other | 2,971 | 3,306 | (335) | (10.1)% |
| | $22,081 | $24,628 | $(2,547) | (10.3)% |

The increase in cost of sales within the HE Division in the third quarter of Fiscal 2013 compared to the third quarter of Fiscal 2012 was primarily related to an increase in the Units with guarantees. The decrease in cost of sales in the first nine months of Fiscal 2013 compared to the same period of Fiscal 2012 was primarily related to the decreases in revenue discussed above.

Gross margins as a percentage of revenue were as follows:

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| AMI Division | 59.9% | 66.1% | 61.4% | 64.4% |
| HE Division | 25.7% | 31.8% | 29.0% | 32.9% |

The declines in gross margin in the AMI Division in the Fiscal 2013 periods compared to the same periods of Fiscal 2012 were primarily due to a shift in mix of revenue, as more revenue in the current quarter was generated from TV Essentials™, which has a lower gross margin than Box Office Essentials or On Demand Essentials.

The decreases in gross margin in the HE Division in the Fiscal 2013 periods compared to the same periods of Fiscal 2012 were primarily due to a shift in mix of revenue to less DRS revenue, which typically has higher margins.

Selling and Administrative

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

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

| Selling and administrative | Three Months Ended December 31, 2012 | 2011 | Dollar Change | % Change |
|---|---|---|---|---|
| AMI | $7,016 | $5,768 | $1,248 | 21.6% |
| HE | 1,368 | 1,734 | (366) | (21.1)% |
| Corporate | 4,486 | 4,093 | 393 | 9.6% |
| | $12,870 | $11,595 | $1,275 | 11.0% |

| Selling and administrative | Nine Months Ended December 31, 2012 | 2011 | Dollar Change | % Change |
|---|---|---|---|---|
| AMI | $36,846 | $15,401 | $21,445 | 139.2% |
| HE | 4,012 | 5,139 | (1,127) | (21.9)% |
| Corporate | 13,292 | 11,814 | 1,478 | 12.5% |
| | $54,150 | $32,354 | $21,796 | 67.4% |

AMI Division

The increase in selling and administrative expenses in the AMI Division in the three month period ended December 31, 2012 compared to the same period of Fiscal 2012 was primarily due to increased costs related to the expansion of our AMI Division, with approximately three-quarters of the increase related to the growth in TV Essentials™. The increase for the nine month period ended December 31, 2012 compared to the same period of Fiscal 2012 was primarily due to changes related to the cancellation of a stock award granted to DISH that had been previously revalued at the end of each reporting period and increased costs related primarily to increased headcount and other costs associated with the expansion of TV Essentials™.

In exchange for canceling the stock award and as compensation for past services, DISH was paid $5.8 million and issued 700,000 shares of our common stock during the second quarter of Fiscal 2013, and we recorded $15.8 million in expense related to this amendment and related stock award. There was no expense in the three month period ended December 31, 2012 related to this award since it was canceled. However, there were credits of $110,000 and $2.6 million in the three and nine month period ended December 31, 2011, respectively.

Excluding the impact of the DISH amendment, expenses increased $3.1 million, or 17.5%, in the nine months ended December 31, 2012 compared to the same period of Fiscal 2012.

HE Division

The decreases in selling and administrative expenses in the HE Division in the Fiscal 2013 periods compared to the same periods of Fiscal 2012 were primarily due to reductions in our overall headcount in order to better align the number of employees with current and expected future trends in this division.

Corporate

The increases in Corporate selling and administrative expenses in the Fiscal 2013 periods compared to the same periods of Fiscal 2012 were primarily due to increases in headcount in our information technology department and higher stock-based compensation costs as a result of equity awards granted in the first quarter of Fiscal 2013.

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Income (Loss) from Operations (dollars in thousands)

| Income (loss) from operations | Three Months Ended December 31, 2012 | Three Months Ended December 31, 2011 | Dollar Change | % Change |
|---|---|---|---|---|
| AMI | $1,194 | $1,100 | $94 | 8.5% |
| HE | 1,523 | 2,019 | (496) | (24.6)% |
| Corporate | (4,486) | (4,093) | (393) | (9.6)% |
| | $(1,769) | $(974) | $(795) | (81.6)% |

| Income (loss) from operations | Nine Months Ended December 31, 2012 | Nine Months Ended December 31, 2011 | Dollar Change | % Change |
|---|---|---|---|---|
| AMI | $(12,555) | $3,773 | $(16,328) | (432.8)% |
| HE | 5,016 | 6,929 | (1,913) | (27.6)% |
| Corporate | (13,292) | (11,814) | (1,478) | (12.5)% |
| | $(20,831) | $(1,112) | $(19,719) | (1,773.3)% |

The increase in loss from operations in the nine month period ended December 31, 2012 compared to the same period of Fiscal 2012 was primarily due to the increase in expense in our AMI Division related to the amendment of our agreement with DISH as discussed above. Operating income for the AMI Division excluding the impact of the DISH amendment would have been:

| Income (loss) from operations | Nine Months Ended December 31, 2012 | Nine Months Ended December 31, 2011 | Dollar Change | % Change |
|---|---|---|---|---|
| AMI as reported | $(12,555) | $3,773 | $(16,328) | (432.8)% |
| Less: DISH stock-based compensation | 15,864 | (2,453) | 18,317 | (746.7)% |
| AMI before DISH stock-based compensation | $3,309 | $1,320 | $1,989 | 150.7% |

We believe that adjusting for the expense associated with the DISH amendment gives a more useful indicator by which to compare the current financial performance of the AMI Division.

Income Taxes

Our effective tax rate for the first nine months of Fiscal 2013 was determined by excluding certain jurisdictions with net losses. As a result, the tax provision was 0.9% and was due to taxable income in profitable jurisdictions, compared to a tax provision of 136.9% in the first nine months of Fiscal 2012, which was negatively affected by the recording of a $1.2 million valuation allowance to fully reserve against our deferred tax assets.

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, 2013.

Cash and cash equivalents and marketable securities decreased $1.6 million to $26.2 million at December 31, 2012 from March 31, 2012. This decrease resulted primarily from $4.3 million used for the purchase of equipment and capitalized information technology costs offset by $1.1 million provided by operating activities, $0.6 million in proceeds from the issuance of our common stock and a $1.0 million contribution from noncontrolling interests. Portions of our cash and cash equivalents are held in our foreign subsidiaries. In the event the foreign subsidiaries

repatriate these earnings, the earnings may be subject to United States federal, state and foreign income taxes. As of December 31, 2012, we had $3.3 million in foreign bank accounts, of which we plan to use $1.3 million to fund our international expansion and growth.

We had $21.5 million invested in an adjustable rate government fund as of December 31, 2012. 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 plans

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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 $1.9 million to $12.4 million at December 31, 2012 from March 31, 2012, primarily due to lower revenue in the HE Division in the third quarter of Fiscal 2013 compared to the fourth quarter of Fiscal 2012.

During the first nine months of Fiscal 2013, we spent $4.3 million on property and equipment, including $3.0 million for the capitalization of internally developed software for our business information service offerings. We anticipate spending a total of approximately $6.0 million on property and equipment in all of Fiscal 2013, of which approximately $4.0 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 computer equipment and renovations to our corporate offices.

Accrued liabilities increased $1.9 million to $5.0 million at December 31, 2012 from March 31, 2012, primarily due to increased payments related to our data suppliers.

Accrued compensation decreased $3.8 million to $4.9 million at December 31, 2012 from March 31, 2012, primarily due to a $3.2 million decrease in accrued stock-based compensation for DISH’s award that was canceled and settled in cash during the second quarter of Fiscal 2013, and a $0.7 million decrease in severance accruals relating to payments made during the first nine months of Fiscal 2013 as a result of the reorganization of our foreign operations.

Deferred revenue and other credits of $1.9 million at December 31, 2012 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 $1.8 million at December 31, 2012 represents amounts received for qualified renovations to our corporate headquarters and free rent for a portion of the lease term. The deferred rent related to qualified renovations is being amortized against rent expense over the remaining lease term, which is expected to end December 31, 2021, at the rate of approximately $29,000 per quarter. The deferred rent related to free rent is also being amortized against rent expense over the remaining lease term and is expected to be approximately $13,000 per quarter for Fiscal 2013.

We currently have a revolving line of credit for $15.0 million that matures December 1, 2013. Interest accrues on outstanding balances under the line of credit at a rate equal to LIBOR plus 1.5 percent. The credit line is secured by substantially all of our assets and includes certain financial covenants. At December 31, 2012, 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. On February 5, 2013, the agreement was amended, extending its maturity to December 1, 2014. Also, as of January 1, 2013, the fee we will incur on the unused portion will be 0.2 percent per annum. The remaining terms are effective as of December 1, 2012, and interest will accrue on outstanding balances under the line of credit at a rate equal to LIBOR plus 2.0 percent. The amendment contains certain liquidity, asset and financial covenants and, as of December 31, 2012, 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 bears interest at 5% per annum and contains provisions relating to forgiveness if we meet certain requirements. As of December 31, 2012, we are on schedule toward meeting those requirements. The loan is due on January 31, 2014 if it is not forgiven.

Critical Accounting Policies and Estimates

We reaffirm the critical accounting policies and estimates as reported in our Fiscal 2012 Annual Report on Form 10-K.

New Accounting Guidance
See Note 10 of Notes to Condensed Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.
There have been no material changes in our reported market risks since the filing of our Fiscal 2012 Annual Report on Form 10-K.

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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.

PART II – OTHER INFORMATION

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended March 31, 2012 includes a detailed discussion of our risk factors. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K. Accordingly, the information in this Form 10-Q should be read in conjunction with the risk factors and information disclosed in our Fiscal 2012 Form 10-K.

ITEM 6. EXHIBITS

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

| | |
|---|---|
| 10.1 | Fifth Amendment to Credit Agreement, dated December 1, 2012 between Rentrak Corporation and Wells Fargo Bank, National Association |
| 10.2 | Revolving Line of Credit Note dated December 1, 2012 between Rentrak Corporation and Wells Fargo Bank, National Association |
| 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 |

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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 7, 2013

RENTRAK CORPORATION

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