

RENTRAK CORP
Form 10-Q
August 09, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number: 000-15159

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Common stock \$0.001 par value
(Class)

11,141,781
(Outstanding at August 1, 2012)

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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)

	June 30, 2012	March 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	\$4,439	\$5,526
Marketable securities	22,249	22,227
Accounts and notes receivable, net of allowances for doubtful accounts of \$621 and \$649	12,193	14,260
Deferred tax assets, net	38	48
Other current assets	1,437	985
Total Current Assets	40,356	43,046
Property and equipment, net of accumulated depreciation of \$17,774 and \$17,032	11,616	10,846
Goodwill	4,964	5,101
Other intangible assets, net of accumulated amortization of \$1,740 and \$1,579	12,885	13,165
Other assets	717	723
Total Assets	\$70,538	\$72,881
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$4,589	\$5,291
Accrued liabilities	3,101	3,093
Accrued compensation	6,313	8,781
Deferred revenue and other credits	1,649	2,037
Total Current Liabilities	15,652	19,202
Deferred rent, long-term portion	1,758	1,819
Taxes payable, long-term	735	731
Deferred tax liability, long-term	75	79
Note payable and accrued interest	531	525
Total Liabilities	18,751	22,356
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value; 30,000 shares authorized; shares issued and outstanding: 11,142 and 11,078	11	11
Capital in excess of par value	57,266	55,125
Accumulated other comprehensive income	80	341
Accumulated deficit	(5,570)	(4,952)
Total Stockholders' Equity	51,787	50,525
Total Liabilities and Stockholders' Equity	\$70,538	\$72,881
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 June		
	30,		
	2012	2011	
Revenue	\$23,223	\$22,408	
Cost of sales	11,711	12,148	
Gross margin	11,512	10,260	
Operating expenses:			
Selling and administrative	12,156	10,014	
Income (loss) from operations	(644	) 246
Other income:			
Interest income, net	79	110	
Income (loss) before income taxes	(565	) 356
Provision (benefit) for income taxes	53	(43)
Net income (loss)	\$(618	) \$399
Basic net income (loss) per share	\$(0.06	) \$0.04
Diluted net income (loss) per share	\$(0.06	) \$0.03
Shares used in per share calculations:			
Basic	11,207	11,311	
Diluted	11,207	11,503	

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	For the Three Months Ended June 30,	
	2012	2011
Net income (loss)	\$(618	) \$399
Other comprehensive income (loss):		
Foreign currency translation adjustments	(274	) 98
Unrealized holding gains on available for sale securities ⁽¹⁾	13	62
Other comprehensive income (loss)	(261	) 160
Comprehensive income (loss)	\$(879	) \$559

(1) For the three months ended June 30, 2012 and 2011, the amounts are net of deferred taxes of \$9,000 and \$45,000.

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 Three Months Ended June	
	30,	2011
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$(618	) \$399
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	1,150	1,059
Stock-based compensation	909	(734
Deferred income taxes	(14	) (18
Loss on disposition of assets	1	—
Realized gain on marketable securities	—	(7
Interest on note payable	6	6
Adjustment to allowance for doubtful accounts	(28	) (18
(Increase) decrease in:		
Accounts and notes receivable	2,067	2,371
Taxes receivable and prepaid taxes	—	(89
Other assets	(150	) 22
Increase (decrease) in:		
Accounts payable	(702	) (2,436
Taxes payable	15	(17
Accrued liabilities and compensation	(1,850	) (645
Deferred revenue	(388	) 302
Deferred rent	(61	) 18
Net cash provided by operating activities	337	213
Cash flows from investing activities:		
Purchase of marketable securities	—	(3,000
Sale or maturity of marketable securities	—	3,000
Purchase of intangibles	(57) —
Purchase of property and equipment	(1,606	) (1,677
Net cash used in investing activities	(1,663	) (1,677
Cash flows from financing activities:		
Proceeds from note payable	—	500
Issuance of common stock	543	10
Repurchase of common stock	—	(1,432
Net cash provided by (used in) financing activities	543	(922
Effect of foreign exchange translation on cash	(304	) 116
Decrease in cash and cash equivalents	(1,087	) (2,270
Cash and cash equivalents:		
Beginning of period	5,526	3,821
End of period	\$4,439	\$1,551
Supplemental non-cash information:		
Capitalized stock-based compensation	\$114	\$91
Common stock used to pay for option exercises	58	—

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 month period ended June 30, 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.

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 June 30,	
	2012	2011
Basic EPS:		
Weighted average number of shares of common stock outstanding and vested deferred stock units (“DSUs” ⁽¹⁾)	11,207	11,311
Diluted EPS:		
Effect of dilutive DSUs and stock options	—	192
	11,207	11,503
Total outstanding options not included in diluted EPS as they would be antidilutive	2,866	822
Performance-based grants not included in diluted EPS	270	318

(1) Includes 125,372 and 75,786 vested cumulative DSUs, respectively, for the three months ended June 30, 2012 and 2011 that will not be issued until the directors holding the DSUs retire from our Board of Directors.

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 kiosk companies, 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.

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

	AMI	HE	Other	Total
Three Months Ended June 30, 2012				
Sales to external customers	\$ 12,611	\$ 10,612	\$—	\$ 23,223
Gross margin	8,317	3,195	—	11,512
Income (loss) from operations	1,942	1,799	(4,385	) (644)
Three Months Ended June 30, 2011				
Sales to external customers	\$ 9,596	\$ 12,812	\$—	\$ 22,408
Gross margin	6,162	4,098	—	10,260
Income (loss) from operations	1,788	2,349	(3,891	) 246

Note 4. Stock-Based Compensation

Option Grants

In the first quarter of Fiscal 2013, we granted options to purchase 891,000 shares of our common stock under our 2011 Incentive Plan to certain of our executive officers and other employees. The stock options were granted at the fair market value of our common stock on the dates of grant, which were \$20.18 and \$18.09 per share, respectively, and expire 10 years from the date of grant. The options vest annually from the date of grant in five equal installments. The value of all stock options granted, as determined using the Black-Scholes valuation model, was \$8.3 million and is being recognized over the vesting periods. Approximately \$1.6 million will be recognized in Fiscal 2013. For the three month period ended June 30, 2012, we recognized \$0.4 million related to these awards as a component of selling and administrative expense on our Condensed Consolidated Statements of Operations and have capitalized \$0.1 million related to these awards in property and equipment, net, in accordance with our policies relating 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.

Valuation of Stock-Based Compensation Award with DISH Network, L.L.C. ("DISH")

Stock-based compensation in the three month period ended June 30, 2012 included a \$0.6 million credit for the decrease in value of a stock award related to a compensation agreement entered into in the fourth quarter of Fiscal 2010 with DISH in connection with services provided relating to our TV Essentials™ line of business. This award is revalued at the end of each reporting period utilizing the Black-Scholes valuation model and any change in value is recognized during the current period as a component of selling and administrative expense in our Condensed Consolidated Statements of Operations. The decrease in the price of our common stock was the most significant factor in the reduction in value of the stock award in the first three months of Fiscal 2013. The fair value of this award at June 30, 2012 and March 31, 2012 was \$2.6 million and \$3.2 million, respectively, and was recorded as a component of accrued compensation on our Condensed Consolidated Balance Sheets. On August 8, 2012, the award was canceled. See Note 9 "Subsequent Events" for information relating to the amendment to the DISH agreement.

Note 5. Fair Value Disclosures

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

Level 1 – quoted prices in active markets for identical securities;

Level 2 – quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose significant inputs are observable; and

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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 (in thousands):

	June 30, 2012		March 31, 2012	
	Fair Value	Input Level	Fair Value	Input Level
Available-for-sale marketable securities				
Municipal tax exempt bond funds	\$22,249	Level 1	\$22,227	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 three months of Fiscal 2013.

Marketable securities, all of which were classified as “available-for-sale” at June 30, 2012 and March 31, 2012, consisted of the following (in thousands):

	June 30, 2012	March 31, 2012
Municipal tax exempt bond funds		
Amortized cost	\$22,101	\$22,101
Gross unrecognized holding gains	148	126
Fair value	\$22,249	\$22,227

Note 6. Goodwill and Other Intangible Assets

Goodwill

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

	Three Months Ended June 30, 2012		
	AMI	HE	Total
Beginning balance	\$4,570	\$531	\$5,101
Currency translation	(137	) —	(137
Ending balance	\$4,433	\$531	\$4,964
	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 (in thousands):

	Amortization Period	June 30, 2012	March 31, 2012	
Local relationships	7 to 10 years	\$6,991	\$7,167	
Accumulated amortization		(1,630)	(1,475))
		5,361	5,692	
Tradenames	1 to 3 years	50	50	
Accumulated amortization		(40)	(36))
		10	14	
Existing technology	6 months	66	66	
Accumulated amortization		(66)	(66))
		—	—	
Patents	20 years	118	61	
Accumulated amortization		(4)	(2))
		114	59	
Global relationships	Indefinite	7,400	7,400	
Total		\$12,885	\$13,165	

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

	Three Months Ended June 30,	
	2012	2011
Local relationships	\$202	\$212
Tradenames	4	4
Existing Technology	—	33
Patents	1	—
Currency translation	(46)	4
	\$161	\$253

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

Fiscal	Local Relationships	Tradenames	Patents	Total
Remainder of Fiscal 2013	\$637	\$10	\$5	\$652
2014	849	—	7	856
2015	849	—	7	856
2016	849	—	7	856
2017	829	—	6	835
Thereafter	1,348	—	82	1,430
	\$5,361	\$10	\$114	\$5,485

Note 7. Income Taxes

Our effective tax rate for the first quarter ended June 30, 2012 was determined by excluding certain jurisdictions with net losses. As a result, the tax provision for the first quarter of Fiscal 2013 was 9.4% and was due to taxable income in profitable jurisdictions.

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Our effective tax rate for the first quarter of Fiscal 2012 was a benefit of 12.1% and was positively affected by federal and state research and experimentation credits, earnings on marketable securities that are exempt from federal income taxes and the tax impact of income in foreign locations.

Note 8. New Accounting Guidance

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 ASU 2011-08 did not have a material effect on our financial position, results of operations, or cash flows.

Note 9. Subsequent Events

We have considered all events that have occurred subsequent to June 30, 2012 and through the date of this filing and determined that, except as set forth below, no additional disclosure is required.

On August 8, 2012, we amended and extended our agreement with DISH. Under the terms of the previous agreement, we provided DISH with a stock-based compensation arrangement which entitled DISH to a cash payment based on the increase in price of our 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, during this time, we had a profit sharing arrangement with DISH, that provided for the payment to DISH of a percentage of net profits of the TV Essentials™ line of business. However, to date, no amounts have been earned under the profit sharing arrangement. In exchange for canceling the SAR and to compensate DISH for past services, the Company will pay DISH \$5.8 million and issue to DISH 700,000 shares of common stock valued at \$13.2 million. As of June 30, 2012, we had accrued \$2.6 million as a component of accrued compensation in our Condensed Consolidated Balance Sheets relating to the SAR. As a result of this amendment, we expect to record additional expense of \$16.5 million during our second quarter ending September 30, 2012, which will be reflected in selling and administrative expense in our Condensed Consolidated Statements of Operations.

The amendment also extends the agreement through at least February 2016 and adds minimum payments relating to sharing in net profits for portions of our TV Essentials line of business. These payments will be expensed as a component of cost of sales in our Condensed Consolidated Statements of Operations.

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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 variations 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, 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;
- the negative effect on our PPT business for Fiscal 2013 as a result of Warner Brothers' decision to release its video content in the retail channel before offering it to the rental market;
- future acquisitions or investments;
- 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; 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 March 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;
- 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;

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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”) operating division includes our media measurement services. Our HE operating 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. As a result, 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 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. By providing second- and third-tier retailers the opportunity to acquire new inventory in the same manner as major national chains, our PPT System enables retailers everywhere, regardless of size, 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 \$3.0 million, or 31.4%, in the first three months of Fiscal 2013 compared to the first three months of Fiscal 2012.

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

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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 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 cable provider. Our PPT System focuses primarily on the traditional “brick and mortar” retailer.

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. Thus, for the foreseeable future, we expect revenue from our HE Division to continue to decline.

The landscape of the home video rental market for “brick and mortar” retailers has seen significant changes. In the first half of calendar year 2010, a major retailer, Movie Gallery, closed all of its 2,000 stores. Also, Blockbuster Entertainment (“Blockbuster”) closed approximately 1,300 retail locations. In April 2011, Blockbuster’s assets were acquired by DISH Network L.L.C. (“DISH”). While DISH continues to operate the remaining locations, in February 2012 it announced that it will close additional stores. Although Movie Gallery and Blockbuster were not direct customers of ours, as a result of these closures, 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.

For the many regional chains and independent retailers who rent Units to consumers, it is more effective to acquire “new release” rental inventory on a lease basis instead of purchasing the inventory. Our PPT System provides 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. Also, many of our arrangements are structured so that the 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).

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. We are also continually seeking to develop business relationships with new Program Suppliers. Our relationships with Program Suppliers typically may be terminated without cause upon thirty days’ written notice by either party.

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

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

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

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

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

Results of Operations

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

	AMI	HE	Other ⁽¹⁾	Total
Three Months Ended June 30, 2012				
Sales to external customers	\$ 12,611	\$ 10,612	\$ —	\$ 23,223
Gross margin	8,317	3,195	—	11,512
Income (loss) from operations	1,942	1,799	(4,385)	(644)
Three Months Ended June 30, 2011				
Sales to external customers	\$ 9,596	\$ 12,812	\$ —	\$ 22,408
Gross margin	6,162	4,098	—	10,260
Income (loss) from operations	1,788	2,349	(3,891)	246

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

Revenue

Revenue increased \$0.8 million, or 3.6%, to \$23.2 million in the first quarter of Fiscal 2013 compared to \$22.4 million in the first quarter of Fiscal 2012. The increase in revenue was due to an increase in AMI revenue, primarily related to growth in our existing lines of business, partially offset by a decline in revenue from our HE Division. These fluctuations are described in more detail below.

AMI Division

Revenue related to our 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 Essentials™ revenue as a result of further investments, development and expansion of new and existing services, both domestically and internationally.

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

	Three Months Ended June 30,		Dollar	% Change
	2012	2011	Change	
Box Office Essentials™	\$ 5,969	\$ 5,027	\$ 942	18.7%
OnDemand Everywhere	2,903	2,830	73	2.6%
TV Essentials™	3,739	1,739	2,000	115.0%
	\$ 12,611	\$ 9,596	\$ 3,015	31.4%

The increase in Box Office Essentials™ revenue in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was primarily due to rate increases for existing clients and the addition of new clients.

The increase in OnDemand Everywhere revenue in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was due primarily to rate increases for existing clients. Revenue from our video-on-demand business, which is included in OnDemand Everywhere, increased 10.6% in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012. OnDemand Everywhere growth was 2.6% as a result of the delay of a new product until later in the year.

The increase in TV Essentials™ revenue in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was primarily due to the addition of new clients, primarily advertising agencies, local stations and networks.

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HE Division

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

	Three Months Ended June 30,		Dollar Change	% Change
	2012	2011		
Transaction fees	\$6,918	\$7,854	\$(936)	) (11.9)%
Sell-through fees	1,677	2,043	(366)	) (17.9)%
DRS	836	1,439	(603)	) (41.9)%
Other	1,181	1,476	(295)	) (20.0)%
	\$10,612	\$12,812	\$(2,200)	) (17.2)%

The decrease in transaction fees in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was primarily due to fewer rental transactions at our Participating Retailers, which decreased by 11.4%. Units with minimum guarantees also declined, resulting in a decrease in revenue of \$0.2 million in the three month period ended June 30, 2012 compared to the same period of the prior fiscal year, primarily due to the timing and quality of releases. The decrease in rental transactions was due to fewer Participating Retailers, fewer available Units and lower box office performance from theatrical titles in the Fiscal 2013 period compared to the Fiscal 2012 period, as well as continued changing market conditions. Also, during the third quarter of Fiscal 2012, Warner Brothers' 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 quarter of Fiscal 2013, and we expect that trend to continue.

The decrease in sell-through fees in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was due to an 18.7% decrease in sell-through volume, as well as a 2.4% decrease in the number of Units sold at the end of the Unit's term, both as a result of overall declines in Units available for sale.

The decrease in DRS revenue in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was due to fewer transactions processed as a result of Warner Brothers' decision mentioned above, as well as a decline in the number of direct retailers from which to track content performance for Program Suppliers.

The decrease in other revenue in the Fiscal 2013 period compared to the Fiscal 2012 period related primarily to reduced order processing fees due to a decline in the number of Units available and fewer Participating Retailers in the period.

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 decreased \$0.4 million, or 3.6%, in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012.

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AMI Division

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

	Three Months Ended June 30,		Dollar	% Change
	2012	2011	Change	
Costs related to:				
Amortization of internally developed software	\$ 600	\$ 519	\$ 81	15.6%
Call center operation	1,244	1,191	53	4.5%
Obtaining, cleansing and processing data	2,450	1,724	726	42.1%
	\$4,294	\$3,434	\$860	25.0%

The increase in cost of sales within the AMI Division in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 resulted primarily from increasing market coverage with existing data supplier agreements and the addition of new data supplier agreements.

HE Division

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

	Three Months Ended June 30,		Dollar	% Change
	2012	2011	Change	
Costs related to:				
Transaction fees	\$ 5,130	\$ 6,011	\$(881)	) (14.7)%
Sell-through fees	1,303	1,511	(208)	) (13.8)%
Other	984	1,192	(208)	) (17.4)%
	\$7,417	\$8,714	\$(1,297)	) (14.9)%

The decrease in cost of sales within the HE Division was primarily related to the decreases in revenue discussed above.

Gross margins as a percentage of revenue were as follows:

	Three Months Ended June 30,	
	2012	2011
AMI Division	66.0%	64.2%
HE Division	30.1%	32.0%

The increase in gross margin in the AMI Division in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was primarily due to the increase in revenues, which favorably affected gross margins since a portion of our costs are fixed. We also amended and extended our data supplier agreement with DISH on August 8, 2012. One of the terms of this amendment requires minimum payments relating to net profits of portions of the TV Essentials™ line of business. Although we expect costs to increase as a result of the DISH agreement, we do not anticipate a significant reduction in gross margin as a percentage of revenue since the increase in revenue over the prior year is expected to more than offset the increase in costs.

The decrease in gross margin in the HE Division in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was primarily due to the decrease in DRS revenue and sales to brokers, both of which have 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 fixed 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 (in thousands):

	Three Months Ended June 30,		Dollar Change	% Change
	2012	2011		
Selling and administrative				
AMI	\$6,375	\$4,374	\$2,001	45.7%
HE	1,396	1,749	(353)	) (20.2)%
Corporate	4,385	3,891	494	12.7%
	\$12,156	\$10,014	\$2,142	21.4%

AMI Division

The increase in selling and administrative expenses in the AMI Division in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was primarily due to a reduced benefit of \$0.6 million related to the decrease in the value of a stock award granted to DISH that is valued at the end of each reporting period, compared to a \$1.9 million benefit in the comparable Fiscal 2012 period related to this award. Excluding the impact of this award, expenses would have increased \$0.7 million, or 11%, due to increased headcount and costs associated with expansion of our AMI Division.

DISH's stock award was canceled on August 8, 2012 as a result of the amendment of the DISH agreement noted above. In exchange for canceling this award and as compensation for past services, DISH will be paid \$5.8 million and issued 700,000 shares of our common stock. On June 30, 2012, we had accrued \$2.6 million as a component of accrued compensation in our Condensed Consolidated Balance Sheets relating to this award. During our second quarter ending September 30, 2012, we expect to record additional expense of \$16.5 million, which will be reflected in selling and administrative expenses in our Condensed Consolidated Statements of Operations, as a result of this amendment.

HE Division

The decrease in selling and administrative expenses in the HE Division in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was primarily due to a reduction in our overall headcount in order to better align the number of employees with current and expected future trends in this division.

Corporate

The increase in Corporate selling and administrative expenses in the first quarter of Fiscal 2013 compared to the first quarter of Fiscal 2012 was primarily due to higher stock-based compensation costs as a result of equity awards granted to members of executive and senior management.

Income (Loss) from Operations (in thousands)

	Three Months Ended June 30,		Dollar Change	% Change
	2012	2011		
Income (loss) from operations				
AMI	\$1,942	\$1,788	\$154	8.6%
HE	1,799	2,349	(550)	) (23.4)%
Corporate	(4,385)	(3,891)	(494)	) 12.7%
	\$(644)	\$246	\$(890)	) (361.8)%

Income Taxes

Our effective tax rate for the first quarter ended June 30, 2012 was determined by excluding certain jurisdictions with net losses. As a result, the tax provision for the first quarter of Fiscal 2013 was 9.4% and was due to taxable income in profitable jurisdictions compared to a tax benefit of 12.1% in the first quarter of Fiscal 2012, which was positively affected by federal and state research and experimentation credits, earnings on marketable securities that are exempt

from federal income taxes and the tax impact of income in foreign locations.

Liquidity and Capital Resources

Our sources of liquidity include our cash and cash equivalents, marketable securities, cash expected to be generated from future

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operations and investments and our \$15.0 million line of credit. Based on our current financial projections and projected cash needs, we believe that our available sources of liquidity will be sufficient to fund our current operations, the continued current development of our business information services and other cash requirements through at least June 30, 2013.

Cash and cash equivalents and marketable securities decreased \$1.1 million to \$26.7 million at June 30, 2012 from March 31, 2012. This decrease resulted primarily from \$1.6 million used for the purchase of equipment and capitalized information technology costs, offset by \$0.3 million provided by operating activities. Portions of our cash and cash equivalents are held in our foreign subsidiaries. We may not be able to repatriate these funds without significant tax implications. As of June 30, 2012, we had \$1.4 million in foreign bank accounts, which we plan to use to fund our international expansion and growth.

We had \$22.2 million invested in tax-exempt bond funds as of June 30, 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 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 \$2.1 million to \$12.2 million at June 30, 2012 from March 31, 2012, primarily due to lower revenue in the HE Division in the first quarter of Fiscal 2013 compared to the fourth quarter of Fiscal 2012.

Other current assets increased \$0.5 million to \$1.4 million at June 30, 2012 from March 31, 2012, primarily due to the timing of other receivables, primarily related to stock option exercises and other payroll related receivables, all of which have been collected as of August 9th, 2012.

During the first three months of Fiscal 2013, we spent \$1.6 million on property and equipment, including \$1.0 million for the capitalization of internally developed software for our business information service offerings. We anticipate spending a total of approximately \$6.2 million on property and equipment, of which approximately \$3.7 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.

Accounts payable decreased \$0.7 million to \$4.6 million at June 30, 2012 from March 31, 2012, primarily due to the timing of payments to our Program Suppliers.

Accrued compensation decreased \$2.5 million to \$6.3 million at June 30, 2012 from March 31, 2012, primarily due to a \$1.5 million decrease in our bonus accrual since bonuses related to Fiscal 2012 were paid during the first quarter of Fiscal 2013, a \$0.4 million decrease in severance accruals due to payments made during the quarter related to the reorganization of our foreign operations, and a \$0.6 million decrease in accrued stock-based compensation that will be settled in cash and relates to an agreement with DISH, and which fluctuated with our stock price during the first quarter of Fiscal 2013. As noted above, this award was canceled on August 8, 2012, and DISH will be paid \$5.8 million and receive 700,000 shares of our common stock as consideration for canceling the award and as compensation for past services.

Deferred revenue and other credits of \$1.6 million at June 30, 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, current and long-term, of \$1.9 million at June 30, 2012 represents amounts received for qualified renovations to our corporate headquarters and free rent for 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 will also be 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 June 30, 2012, we had no outstanding borrowings under this agreement and we were in compliance with the financial 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 June 30, 2012, we are on schedule toward meeting those requirements. The loan is due on January 31, 2014 if it is not forgiven.

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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 8 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.

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:

- | | |
|---------|--|
| 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: August 9, 2012

RENTRAK CORPORATION

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