

RENTRAK CORP  
Form 10-Q  
November 04, 2015

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-15159

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

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Oregon (State or other jurisdiction of incorporation or organization)	93-0780536 (I.R.S. Employer Identification No.)
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7700 NE Ambassador Place, Portland, Oregon (Address of principal executive offices)	97220 (Zip Code)
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Registrant's telephone number, including area code: 503-284-7581

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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)

15,374,140  
(Outstanding at October 30, 2015)

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FORM 10-Q  
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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)

	September 30, 2015	March 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$5,404	\$3,691
Marketable securities	72,462	80,318
Accounts receivable, net of allowances for doubtful accounts of \$91 and \$179	21,674	16,884
Deferred tax assets, net	95	60
Other current assets	2,764	3,928
Total Current Assets	102,399	104,881
Property and equipment, net of accumulated depreciation of \$31,008 and \$29,121	29,651	23,035
Goodwill	135,940	135,890
Other intangible assets, net of accumulated amortization of \$5,005 and \$4,203	16,291	16,384
Other assets	4,346	4,333
Total Assets	\$288,627	\$284,523
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$3,565	\$3,967
Accrued liabilities	702	592
Accrued data provider liabilities	9,174	6,690
Accrued compensation	6,510	11,724
Deferred revenue and other credits	4,453	3,812
Total Current Liabilities	24,404	26,785
Deferred rent, long-term	2,212	2,358
Accrued compensation, long-term	93	90
Taxes payable, long-term	470	465
Deferred tax liability, net, long-term	3,335	2,228
Total Liabilities	30,514	31,926
Commitments and Contingencies	—	—
Stockholders' Equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value; shares authorized: 75,000; shares issued and outstanding: 15,357 and 15,251	15	15
Capital in excess of par value	288,210	285,280
Accumulated other comprehensive income	307	464
Accumulated deficit	(30,939	) (33,811
Stockholders' Equity attributable to Rentrak Corporation	257,593	251,948
Noncontrolling interest	520	649
Total Stockholders' Equity	258,113	252,597
Total Liabilities and Stockholders' Equity	\$288,627	\$284,523

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 September 30,		For the Six Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$32,802	\$25,241	\$60,331	\$47,585
Cost of revenue	10,034	8,040	19,927	15,644
Gross margin	22,768	17,201	40,404	31,941
Operating expenses:				
Selling, general and administrative	16,415	14,544	28,075	27,378
Research, technology and innovation	4,666	3,073	8,645	6,337
Total operating expenses	21,081	17,617	36,720	33,715
Income (loss) from continuing operations	1,687	(416)	3,684	(1,774)
Other income, net	197	20	348	40
Income (loss) from continuing operations before income taxes	1,884	(396)	4,032	(1,734)
Provision for income taxes	636	337	1,289	365
Income (loss) from continuing operations, net of income taxes	1,248	(733)	2,743	(2,099)
Income from discontinued operations, net of income taxes	—	308	—	655
Net income (loss)	1,248	(425)	2,743	(1,444)
Net loss attributable to noncontrolling interest	(56)	(51)	(129)	(104)
Net income (loss) attributable to Rentrak Corporation	\$1,304	\$(374)	\$2,872	\$(1,340)
Income (loss) per share from continuing operations attributable to Rentrak Corporation common stockholders:				
Basic	\$0.08	\$(0.06)	\$0.19	\$(0.16)
Diluted	\$0.08	\$(0.06)	\$0.18	\$(0.16)
Income per share from discontinued operations attributable to Rentrak Corporation common stockholders:				
Basic	\$—	\$0.03	\$—	\$0.05
Diluted	\$—	\$0.03	\$—	\$0.05
Net income (loss) per share attributable to Rentrak Corporation common stockholders:				
Basic	\$0.08	\$(0.03)	\$0.19	\$(0.11)
Diluted	\$0.08	\$(0.03)	\$0.18	\$(0.11)
Shares used in per share calculations:				
Basic	15,541	12,514	15,501	12,529
Diluted	16,354	12,514	16,379	12,529

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 references)

	For the Three Months Ended		For the Six Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income (loss)	\$1,248	\$(425)	) \$2,743	\$(1,444)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(60)	) (411)	) 112	(385)
Unrealized holding losses which arose during the period on available-for-sale securities <sup>(1)</sup>	(253)	) (35)	) (330)	) (35)
Recognition of previously unrealized losses on available-for-sale securities included in net income (loss) <sup>(2)</sup>	8	—	62	—
Other comprehensive loss	(305)	) (446)	) (156)	) (420)
Comprehensive income (loss)	943	(871)	) 2,587	(1,864)
Less: Comprehensive loss attributable to noncontrolling interest	(56)	) (51)	) (129)	) (104)
Comprehensive income (loss) attributable to Rentrak Corporation	\$999	\$(820)	) \$2,716	\$(1,760)

(1) For the three and six month periods ended both September 30, 2015 and 2014, the amounts are net of zero deferred taxes.

(2) For the three and six month periods ended both September 30, 2015 and 2014, the amounts are net of zero deferred tax benefits.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	For the Six Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	\$2,743	\$(1,444)
Income from discontinued operations, net of income taxes	—	(655)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities of continuing operations:		
Depreciation and amortization	4,766	3,400
Stock-based compensation	3,913	3,762
iTVX stock-based compensation	(3,659)	) 100
Deferred income taxes	1,072	207
Loss on disposition of assets	4	98
Realized loss on marketable securities	62	—
Adjustment to allowance for doubtful accounts	(88)	) (77)
(Increase) decrease in:		
Accounts receivable	(5,028)	) (2,747)
Taxes receivable and prepaid taxes	—	122
Other assets	1,150	967
Increase (decrease), net of effect of acquisition in:		
Accounts payable	(1,160)	) (112)
Taxes payable	88	737
Accrued liabilities and compensation	(1,586)	) (179)
Deferred revenue	641	781
Deferred rent	(147)	) (85)
Net cash provided by operating activities of discontinued operations	—	1,175
Net cash provided by operating activities	2,771	6,050
Cash flows from investing activities:		
Purchase of marketable securities	(2,750)	) (8,000)
Sale of marketable securities	10,275	6,000
Payments made to develop intangible assets	(83)	) (53)
Purchase of property and equipment, including capitalized IT labor costs	(9,527)	) (5,265)
Cash paid for acquisition	(300)	) —
Net cash used in investing activities	(2,385)	) (7,318)
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,309	757
Net cash provided by financing activities	1,309	757
Effect of foreign exchange translation on cash	18	(115)
Increase (decrease) in cash and cash equivalents	1,713	(626)
Cash and cash equivalents:		
Beginning of period	3,691	5,102
End of period	\$5,404	\$4,476
Supplemental non-cash information:		
Capitalized stock-based compensation	\$579	\$329
Common stock used to pay for option exercises	907	1,485
Common stock used to pay for taxes associated with option exercises	1,075	990



Common stock used to pay for taxes associated with vested restricted stock units	1,764	2,121
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See accompanying Notes to Condensed Consolidated Financial Statements.

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## RENTRAK CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Note 1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Rentrak Corporation have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with the accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three and six month periods ended September 30, 2015 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2016 (“Fiscal 2016”). The Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes thereto included in our 2015 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.

## Principles of Consolidation

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

In Fiscal 2012, we established a Chinese joint venture, Sinotrak, and hold a 49% ownership interest in this variable interest entity (the “VIE”). Sinotrak has been included in our Condensed Consolidated Financial Statements, as we have determined that we are the primary beneficiary of the VIE, given our significant influence over day to day operations, among other factors. To date, the activities of Sinotrak have been limited primarily to initial cash contributions from both joint venture parties and costs associated with Sinotrak’s formation. The equity interests of the noncontrolling party, totaling \$0.5 million and \$0.6 million as of September 30, 2015 and March 31, 2015, respectively, are reported as a noncontrolling interest in our Condensed Consolidated Balance Sheets. The noncontrolling party’s share of the expenses for the three and six months ended September 30, 2015 and 2014, are included in “Net loss attributable to noncontrolling interest” in our Condensed Consolidated Statements of Operations.

## Note 2. Net Income (Loss) Per Share

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Basic EPS:				
Weighted average number of shares of common stock outstanding and vested deferred stock units (“DSUs” <sup>(e)</sup> )	15,541	12,514	15,501	12,529
Diluted EPS:				
Effect of dilutive stock options and unvested DSUs	813 16,354	— 12,514	878 16,379	— 12,529
Total outstanding options not included in diluted EPS as they would be antidilutive	—	3,239	—	3,239
	21	—	21	—

Performance based grants not included in diluted  
EPS

(1) Includes 192,118 and 177,569 vested cumulative DSUs, respectively, for the three months ended September 30, 2015 and 2014 and 190,325 and 174,496 vested cumulative DSUs, respectively, for the six months ended September 30, 2015 and 2014 that will not be issued until the directors holding the DSUs retire from our Board of Directors.

Note 3. Discontinued Operations

During the fourth quarter of Fiscal 2015, we completed the sale of our Pay Per Transaction® (“PPT®”) business. Accordingly, the PPT® business is reported as discontinued operations for the three and six months ended September 30, 2014. See additional information in Note 18 of the Form 10-K Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$—	\$7,323	\$—	\$15,905
Income from operations	\$—	\$538	\$—	\$1,126
Other expense	—	37	—	37
Income before income taxes	—	501	—	1,089
Income tax provision	—	193	—	434
Income from discontinued operations, net of income taxes	\$—	\$308	\$—	\$655

## Note 4. Stock-Based Compensation

The following table summarizes our stock based grants (dollars in thousands):

	Three Months Ended September 30, 2015	Six Months Ended September 30, 2015
Restricted Stock Unit (“RSU”) grants:		
Units granted from 2011 Incentive Plan	14,167	32,120
Vesting period, in years - high	5	10
Vesting period, in months - low	3	3
Compensation information related to RSUs granted in period:		
Total fair market value, recognized over vesting period	\$868	\$2,091
Total expected expense to be recognized in Fiscal 2016	\$530	\$633
Expense recognized as a component of operating expenses	\$326	\$354
Expense capitalized in property and equipment, net <sup>(1)</sup>	\$27	\$31
RSUs vesting in period:		
RSU shares vesting in period	16,547	62,259
Shares withheld in payment for taxes associated with vested RSUs	6,306	27,511
Net Option Exercises (shares withheld in payment of exercise price and related withholding taxes):		
Number of shares withheld	—	28,916
Value of shares withheld	\$—	\$1,982
DSU grants:		
Units granted from 2011 Incentive Plan to non-executive directors	19,546	19,546
Vesting period, in years	1	1
Compensation information related to DSUs granted in period (in thousands):		
Total fair market value, recognized over vesting period	\$975	\$975
Total expected expense to be recognized in Fiscal 2016	\$621	\$621
Expense recognized as a component of operating expenses	\$89	\$89

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

Note 5. Fair Value Disclosures

Fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. 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.

Assets and liabilities recognized or disclosed at fair value in our condensed consolidated financial statements on a non-recurring basis include items such as property and equipment, cost method investments and other assets. These assets are measured at fair value if determined to be impaired. The fair values of these investments are determined based on valuation techniques using the best information available and may include quoted market prices, other comparables, and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other than temporary. 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 and liabilities that are measured at fair value on a recurring basis (dollars in thousands):

	September 30, 2015		March 31, 2015	
	Fair Value	Input Level	Fair Value	Input Level
Available-for-sale marketable securities				
Fixed-income securities	\$72,462	Level 1	\$80,318	Level 1
Contingent consideration liability				
Contingent consideration liability associated with purchase of iTVX	\$—	Level 3	\$4,500	Level 3

The fair value of our “available-for-sale” marketable securities is determined based on quoted market prices for identical securities on a quarterly basis. There were no changes to our valuation methodologies during the first six months of Fiscal 2016.

Our acquisition of iTVX in August 2013 included contingent consideration which was based on future revenue achieved after the completion of approximately 2 years. The fair value of the contingent consideration as of the acquisition date was \$2.0 million. The contingent consideration payment was to be paid in the form of cash (25% of the total contingent consideration) and shares of our common stock (75% of the total contingent consideration). This award was revalued at the end of each reporting period and, based on our stock price as of March 31, 2015, the fair value of the award increased to \$4.5 million. See Note 4 of Notes to Consolidated Financial Statements in the Form 10-K for additional disclosures relating to the fair value determination for this contingent consideration liability.

During the quarter ended June 30, 2015, we evaluated our accrual related to the contingent consideration and determined that the earn out provisions would not be fully met. Based on this determination, we reduced our accrual by \$4.0 million in the first fiscal quarter of 2016, and offset receivables of \$0.3 million which related to the acquisition. The net amount of \$3.7 million was recorded as a reduction to selling, general and administrative expenses in our Condensed Consolidated Statements of Operations. In July 2015, an agreement was reached to pay the contingent consideration earlier than expected in the amount of approximately \$0.5 million in cash.

Marketable securities, all of which were classified as “available-for-sale” at September 30, 2015 and March 31, 2015, consisted of the following (dollars in thousands):

	September 30, 2015	March 31, 2015
Available-for-sale marketable securities		
Amortized cost	\$72,934	\$80,522
Gross unrecognized holding losses	(472	) (204
Fair value	\$72,462	\$80,318

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

On December 1, 2014, we acquired the U.S. television measurement business related to tuning analytics utilizing return path data (the "RPD Business") of WPP's Kantar business unit (a unit of Competitive Media Reporting, LLC, an affiliate of WPP plc ("WPP")).

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Unaudited pro forma results of operations as if the RPD Business had been acquired as of April 1, 2014, were as follows (dollars in thousands, except for per share amounts):

	Three Months Ended September 30, 2014	Six Months Ended September 30, 2014
Total revenue	\$27,413	\$51,931
Net loss attributable to Rentrak Corporation	(2,433	) \$(5,458
Basic earnings per share	(0.16	) (0.36
Diluted earnings per share	(0.16	) (0.36

Note 7. Goodwill and Other Intangible Assets

Goodwill

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

	Six Months Ended September 30, 2015
Beginning balance	\$135,890
Currency translation	50
Ending balance	\$135,940
	Year Ended March 31, 2015
Beginning balance	\$7,034
Acquisition of RPD Business	129,406
Currency translation	(550
Ending balance	) \$135,890



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## Other Intangible Assets

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

	Amortization Period	September 30, 2015	March 31, 2015	
Customer relationships	6 to 10 years	\$12,329	\$12,220	
Accumulated amortization		(4,650)	(3,899)	)
		7,679	8,321	
Trade names	2 to 3 years	75	75	
Accumulated amortization		(75)	(75)	)
		—	—	
Existing technology	4 to 5 years	851	334	
Accumulated amortization		(211)	(175)	)
		640	159	
Patents	20 years	639	556	
Accumulated amortization		(67)	(52)	)
		572	504	
Order backlog	1 year	2	2	
Accumulated amortization		(2)	(2)	)
		—	—	
Global customer relationships	Indefinite	7,400	7,400	
Total		\$16,291	\$16,384	

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

	Six Months Ended September 30,		
	2015	2014	
Customer relationships	\$682	\$469	
Trade names	—	6	
Existing technology	36	34	
Patents	15	11	
Order backlog	—	1	
Currency translation	70	(131)	)

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

Fiscal	Customer Relationships	Existing Technology	Patents
Remainder of Fiscal 2016	\$723	\$85	\$16
2017	1,446	170	32
2018	1,334	128	32
2019	869	103	32
2020	799	103	32
Thereafter	2,508	51	428
	\$7,679	\$640	\$572

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Note 8. Income Taxes

Our effective tax rates are determined by excluding certain jurisdictions with net losses. Our tax provision for the first six months of Fiscal 2016 was 32.0% and this increase was primarily driven by tax expense related to the increased amortization of indefinite-lived intangible assets.

Our effective tax rate for the first six months of Fiscal 2015 was 21.0%, due to the effect of intraperiod allocations to discontinued operations.

Note 9. New Accounting Guidance

ASU 2014-09

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 supersedes nearly all existing revenue recognition guidance under GAAP. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We are evaluating our existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. In August 2015, ASU 2014-14 was issued deferring the effective date of this guidance to be effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018.

Note 10. Merger Agreement with comScore, Inc.

On September 29, 2015, we entered into an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”) with comScore, Inc., a Delaware corporation (“comScore”), and Rum Acquisition Corporation, an Oregon corporation and a wholly owned subsidiary of comScore (“Merger Sub”). Pursuant to the terms of the Merger Agreement, Merger Sub will merge with and into Rentrak (the “Merger”), with Rentrak surviving the Merger as a wholly owned subsidiary of comScore.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of the common stock of Rentrak held as of the Effective Time of the Merger will be converted into the right to receive 1.15 shares of the common stock of comScore. Rentrak and comScore intend, for U.S. federal income tax purposes, that the Merger will qualify as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code of 1986, and the Merger Agreement was adopted as a plan of reorganization within the meaning of Treasury Regulations Section 1.368-2(g).

Consummation of the Merger is subject to customary closing conditions, including the absence of certain legal impediments, the expiration or termination of the required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the effectiveness of certain filings with the SEC, approvals by Rentrak and comScore stockholders and receipt of opinions from legal counsel regarding the intended tax treatment of the Merger. The parties have made customary representations, warranties and covenants in the Merger Agreement, including covenants regarding the conduct of their respective businesses and the use of reasonable best efforts to cause the conditions to the Merger to be satisfied.

Rentrak and comScore currently anticipate that the closing of the transactions contemplated by the Merger Agreement will occur in early 2016.

We have recorded \$1.1 million in acquisition costs related to the Merger in the three and six months ended September 30, 2015. These costs are included in selling, general and administrative costs in our Condensed Consolidated Statement of Operations.

Note 11. Subsequent Events

We have considered all events that have occurred subsequent to September 30, 2015 and determined that no additional disclosure is required.

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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 "should," "plan," "predict," "believe," "may," "will," "expects," "anticipate" or "continues" or the negative thereof or variations thereon or comparable terminology.

Forward-looking statements in this Quarterly Report on Form 10-Q include, in particular, statements regarding: the future growth prospects for our business as a whole and individual product 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;

our plans to complete a business combination with comScore, Inc., including the timing of such business combination;

increases in our costs over the next twelve months;

future acquisitions or investments;

our plans or requirements to hold or sell our marketable securities;

our relationships with our customers and suppliers;

our ability to attract new customers;

market response to our products and services;

increased spending on property and equipment in Fiscal 2016 for the capitalization of internally developed software, computer equipment and other purposes and our ability to leverage these investments to generate revenue and earning streams;

expected amortization of our deferred rent;

the sufficiency of our available sources of liquidity to fund our current operations, the continued current development of our business information services and other cash requirements through at least September 30, 2016; and

our long-term strategic plan to develop, grow and expand our Essentials® services, both domestically and internationally.

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 and advanced consumer targeting services, in order to increase revenue and/or create new revenue streams;

timely acquire and integrate into our systems various third party databases;

compete with companies that may have financial, marketing, sales, technical or other advantages over us;

successfully deal with our data providers, who are much larger than us and have significant financial leverage over us; successfully manage the impact on our business of the economic environment generally, both domestic and

international, and in the markets in which we operate, including the financial condition of any of our suppliers or customers or the impact of the economic environment on our suppliers' or customers' ability to continue their services with us and/or fulfill their payment obligations to us;

effectively respond to rapidly changing technology and consumer demand for entertainment content in various media formats;

manage and/or offset any cost increases;

add new clients, retain existing clients or adjust rates for our services;

adapt to government restrictions;

leverage our investments in our systems and generate revenue and earnings streams that contribute to our overall success;

enhance and expand the services we provide in our foreign locations and enter into additional foreign locations; and successfully integrate business acquisitions or other investments in other companies, products or technologies into our operations and use those acquisitions or investments to enhance our technical capabilities, expand our operations into new markets or otherwise grow our business.

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Please refer to Item 1A. Risk Factors in the Form 10-K for the fiscal year ended March 31, 2015 (“Fiscal 2015”) as filed with the SEC on May 29, 2015 for a discussion of reasons why our actual results may differ materially from our forward-looking statements. Please refer to Item 1A. in this Quarterly Report on Form 10-Q for additional information regarding our Risk Factors. Although we may elect to update forward-looking statements in the future, we specifically disclaim any obligation to do so, even if our expectations change.

Business Overview

We are a global media measurement and advanced consumer targeting company serving the entertainment, television, video and advertising industries. Our Software as a Service (“SaaS”) technology merges television viewership information from almost 120 million TVs and devices with consumer behavior and purchase information (“Advanced Demographics”) across multiple platforms, devices and distribution channels. We also measure box office results from more than 125,000 movie screens in 64 countries throughout the world. We process and aggregate hundreds of billions of data transactions from multiple screens wherever entertainment content is viewed, whether at the box office, on a television screen, over the Internet, on a smart phone or other portable device. Rentrak measures live TV, recorded TV (“DVR”) and Video On Demand (“VOD”), whether the content is free, purchased, rented, recorded, downloaded or streamed from multiple channels. These massive content databases provide stable and granular viewership information across every screen (“multiscreen”) and are anonymously matched with information from third-party consumer segmentation and purchase databases using privacy compliant methodologies. By linking multiscreen viewership information with information about the products viewers consume and prefer, we provide our clients, such as content producers, distributors, advertisers and advertising agencies, with the knowledge necessary to more effectively manage their businesses, program and market their networks and more precisely target and sell their advertising inventory. Some examples of the benefits to the advertising community are improved profitability by effectively targeting viewers of specific TV shows through the products they buy, the cars they drive and how they are likely to vote in elections. Some examples of the benefits to the movie industry and video (TV) content owners are that they can manage their businesses in real time or near real time and also improve their profitability. Additionally, certain clients use our advanced analytics to populate automated buying systems. These systems automate the buying process for TV commercials and introduce efficiencies for both advertising agencies and their clients.

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

On September 29, 2015, we entered into an Agreement and Plan of Merger and Reorganization (the “Merger Agreement”) with comScore, Inc., a Delaware corporation (“comScore”), and Rum Acquisition Corporation, an Oregon corporation and a wholly owned subsidiary of comScore (“Merger Sub”). Pursuant to the terms of the Merger Agreement, Merger Sub will merge with and into Rentrak (the “Merger”), with Rentrak surviving the Merger as a wholly owned subsidiary of comScore. Please also see Item 1A. Risk Factors.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each share of the common stock of Rentrak held as of the Effective Time of the Merger will be converted into the right to receive 1.15 shares of the common stock of comScore. Rentrak and comScore intend, for U.S. federal income tax purposes,

that the Merger will qualify as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code of 1986, and the Merger Agreement was adopted as a plan of reorganization within the meaning of Treasury Regulations Section 1.368-2(g).

Consummation of the Merger is subject to customary closing conditions, including the absence of certain legal impediments, the expiration or termination of the required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the effectiveness of certain filings with the SEC, approvals by Rentrak and comScore stockholders and receipt of opinions from legal counsel regarding the intended tax treatment of the Merger. The parties have made customary representations, warranties and covenants in the Merger Agreement, including covenants regarding the conduct of their respective businesses and the use of reasonable best efforts to cause the conditions to the Merger to be satisfied.

Rentrak and comScore currently anticipate that the closing of the transactions contemplated by the Merger Agreement will occur in early 2016.

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Our Products and Services

Our media measurement services are distributed to clients through patented software systems and business processes into two broad areas within the entertainment industry, which we refer to as TV Everywhere™ and Movies Everywhere™. The content viewership and Advanced Demographics (the products we buy and the “lifestyles” we lead) included in our TV Everywhere™ products are from nearly every ZIP code in America, projected to all 210 local TV markets and to a national level across multiple distribution platforms. This method results in granular levels of processing from billions of transactions and establishes us as a premier source of television ratings with consumer targeting using Advanced Demographics.

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

Our most significant lines of business, which we refer to as Essentials® services, are:

- TV Everywhere™, which includes TV Essentials®, StationView Essentials™ and Rentrak Rubik™
- Movies Everywhere™, which includes Box Office Essentials®, International Box Office Essentials™, PostTrak®, PreAct™ and Swift™
- OnDemand Everywhere®, which includes OnDemand Essentials®, Digital Download Essentials®, Multiscreen Essentials® and other OTT measurement tools and related products; and
- Other services, which includes our Studio Revenue Share Essentials™ (“SRSE”) and other products relating to measurement of physical content in the home video rental industry.

In December 2014, we acquired the U.S. television measurement business related to television tuning analytics utilizing return path data (the “RPD Business”) of WPP’s Kantar business unit (see Note 6 of Notes to Condensed Consolidated Financial Statements). The financial results of the RPD Business, from the date of acquisition, are included within our TV Everywhere™ product line.



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## Results of Operations

Our results are as follows (dollars in thousands):

	For the Three Months Ended September 30, <sup>(1)</sup>				For the Six Months Ended September 30, <sup>(1)</sup>			
	2015	% of	2014	% of	2015	% of	2014	% of
	Dollars	revenue	Dollars	revenue	Dollars	revenue	Dollars	revenue
Revenue	\$32,802	100.0 %	\$25,241	100.0 %	\$60,331	100.0 %	\$47,585	100.0 %
Cost of revenue <sup>(2)</sup>	10,034	30.6	8,040	31.9	19,927	33.0	15,644	32.9
Gross margin	22,768	69.4	17,201	68.1	40,404	67.0	31,941	67.1
Operating expenses:								
Selling, general and administrative <sup>(2)(3)</sup>	16,415	50.0	14,544	57.6	28,075	46.5	27,378	57.5
Research, technology and innovation <sup>(2)(3)</sup>	4,666	14.2	3,073	12.2	8,645	14.3	6,337	13.3
Total operating expenses	21,081	64.3	17,617	69.8	36,720	60.9	33,715	70.9
Income (loss) from continuing operations	1,687	5.1	(416 )	(1.6 )	3,684	6.1	(1,774 )	(3.7 )
Other income, net	197	0.6	20	0.1	348	0.6	40	0.1
Income (loss) from continuing operations before income taxes	1,884	5.7	(396 )	(1.6 )	4,032	6.7	(1,734 )	(3.6 )
Provision for income taxes	636	1.9	337	1.3	1,289	2.1	365	0.8
Income (loss) from continuing operations, net of income taxes	1,248	3.8	(733 )	(2.9 )	2,743	4.5	(2,099 )	(4.4 )
Income from discontinued operations, net of income taxes <sup>(2)(3)</sup>	—	—	308	1.2	—	—	655	1.4
Net income (loss)	1,248	3.8	(425 )	(1.7 )	2,743	4.5	(1,444 )	(3.0 )
Net loss attributable to noncontrolling interest	(56 )	(0.2 )	(51 )	(0.2 )	(129 )	(0.2 )	(104 )	(0.2 )
Net income (loss) attributable to Rentrak Corporation	\$1,304	4.0 %	\$(374 )	(1.5 )%	\$2,872	4.8 %	\$(1,340 )	(2.8 )%

(1) Percentages may not sum due to rounding.

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

Cost of revenue	\$1,323	\$991	\$2,590	\$1,874
Selling, general and administrative	677	559	1,355	1,116
Research, technology and innovation	449	195	821	410
Net income from discontinued operations	—	38	—	78
	\$2,449	\$1,783	\$4,766	\$3,478

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

Selling, general and administrative	\$1,792	\$1,828	\$3,408	\$3,289
	46	600	(3,659 )	100

iTVX contingent consideration,  
included in selling, general and  
administrative costs

Research, technology and innovation	281	244	505	473
	2,119	2,672	254	3,862
Net income from discontinued operations	—	103	—	206
	\$2,119	\$2,775	\$254	\$4,068

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## Net Income (Loss) to Adjusted EBITDA Reconciliation

We define Adjusted EBITDA as earnings before interest, taxes, depreciation, amortization, stock-based compensation expense and other non-operating items from our Condensed Consolidated Statements of Operations as well as certain other items specifically described below. Adjusted EBITDA is a non-GAAP measure and should not be considered as an alternative to net income (loss) (the most comparable GAAP financial measure to Adjusted EBITDA).

We believe that Adjusted EBITDA is helpful as an indicator of the current financial performance of our company and our capacity to operationally fund capital expenditures and working capital requirements. Due to the nature of our internally developed software which supports our Essentials® services and our use of stock-based compensation, we incur significant non-cash charges for depreciation, amortization and stock-based compensation expense that may not be indicative of our operating performance from a cash perspective. From Adjusted EBITDA, we also adjust for non-cash items such as stock-based compensation for iTVX, as well as cash-settled items, such as acquisition and non-recurring costs, as we believe these are not representative of our ongoing operating performance and we believe excluding these costs provides a useful metric by which to compare performance from period to period.

Adjusted EBITDA before iTVX stock-based compensation and acquisition costs is a non-GAAP measure and should not be considered as an alternative to net income (loss) (the most comparable GAAP financial measure to Adjusted EBITDA before iTVX stock-based compensation, acquisition and reorganization costs).

The table below presents a reconciliation from net income (loss) to Adjusted EBITDA before iTVX stock-based compensation, acquisition and reorganization costs (dollars in thousands):

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss) attributable to Rentrak Corporation	\$1,304	\$(374)	\$2,872	\$(1,340)
Adjustments:				
Income from discontinued operations, net of income taxes	—	(308)	—	(655)
Provision for income taxes	636	337	1,289	365
Investment income, net	(207)	(40)	(414)	(101)
Depreciation and amortization from continuing operations	2,449	1,745	4,766	3,400
Stock-based compensation from continuing operations <sup>(1)</sup>	2,073	2,072	3,913	3,762
Adjusted EBITDA	6,255	3,432	12,426	5,431
iTVX stock-based compensation	46	600	(3,659)	100
Acquisition and reorganization costs	1,309	270	1,522	316
Adjusted EBITDA, before iTVX stock-based compensation, acquisition and reorganization costs	\$7,610	\$4,302	\$10,289	\$5,847

(1) Excludes iTVX stock-based compensation.

Adjusted EBITDA, before iTVX stock-based compensation and acquisition costs, increased \$3.3 million and \$4.4 million in the first three and six months of Fiscal 2016, respectively, compared to the same periods of the prior year primarily due to the respective increases in revenue.



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## Revenue

Revenue increased \$7.6 million, or 30.0%, to \$32.8 million in the three months ended September 30, 2015 compared to \$25.2 million in the same period of the prior year. As previously described, our revenue is primarily recurring, subscription based fees. For the three months ended September 30, 2015 and 2014, recurring subscription revenue comprised 81.7% and 90.4%, respectively, of our consolidated revenues. Revenue increased \$12.7 million, or 26.8%, to \$60.3 million in the six months ended September 30, 2015 compared to \$47.6 million in the same period of the prior year. For the six months ended September 30, 2015 and 2014, recurring subscription revenue comprised 85.9% and 90.8%, respectively, of our consolidated revenues.

Revenue by product line is as follows (dollars in thousands):

	Three Months Ended September 30,				Dollar Change	% Change
	2015	% of revenues	2014	% of revenues		
TV Everywhere™	\$20,401	62.2 %	\$13,320	52.8 %	\$7,081	53.2%
Movies Everywhere™	7,733	23.6	7,373	29.2	360	4.9%
OnDemand Everywhere®	3,853	11.7	3,341	13.2	512	15.3%
Other services	815	2.5	1,207	4.8	(392)	(32.5)%
	\$32,802	100.0 %	\$25,241	100.0 %	\$7,561	30.0%

  

	Six Months Ended September 30,				Dollar Change	% Change
	2015	% of revenues	2014	% of revenues		
TV Everywhere™	\$36,020	59.7 %	\$23,826	50.1 %	\$12,194	51.2%
Movies Everywhere™	15,361	25.5	14,766	31.0	595	4.0%
OnDemand Everywhere®	7,675	12.7	6,589	13.8	1,086	16.5%
Other Services	1,275	2.1	2,404	5.1	(1,129)	(47.0)%
	\$60,331	100.0 %	\$47,585	100.0 %	\$12,746	26.8%

Our TV Everywhere™ revenue grew by \$7.1 million, or 53.2%, in the three months ended September 30, 2015, compared to the same period of the prior year. Approximately \$6.2 million, or 87.8%, of the second quarter increase represented revenue from new clients and services, with the remainder representing rate increases for existing clients. Our TV Everywhere™ revenue grew by \$12.2 million, or 51.2%, in the six months ended September 30, 2015, compared to the same period of the prior year. Approximately \$8.8 million, or 71.9%, of the year to date Fiscal 2016 increase represented revenue from new clients and services, with the remainder representing rate increases for existing clients.

The increases in revenue from our Movies Everywhere™ product lines in both the three and six month periods ended September 30, 2015, compared to the same periods of the prior year, were primarily due to sales of our PreAct™ and PostTrak® services and rate increases for existing clients. In the three and six month periods ended September 30, 2015, approximately 76.6% and 84.1%, respectively, of the increase represented revenue from new clients and services. We also experienced currency rate fluctuations in the quarter, especially with the Euro. If we held foreign exchange rates constant with the exchanges rates of Fiscal 2015, growth for Movies Everywhere™ would have been 9.2% and 8.5% for the three and six months ended September 30, 2015, respectively.

The increases in revenue from our OnDemand Everywhere® product lines in the three and six month periods ended September 30, 2015, compared to the same periods of the prior year, were primarily due to the addition of new clients as well as rate increases for existing clients. In the three and six month periods ending September 30, 2015, approximately 56.8% and 37.3%, respectively, of the increase represented revenue from new clients.

Other Services primarily includes SRSE revenue and measurement services relating to physical content in the home video rental industry. The decreases in revenue in both the three and six month periods ended September 30, 2015, were primarily due to an overall decrease in home video rental transactions of physical product.

#### Cost of Revenue and Gross Margin

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

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Cost of revenue increased \$2.0 million, or 24.8%, to \$10.0 million in the second quarter of Fiscal 2016 compared to \$8.0 million in the second quarter of Fiscal 2015. Cost of revenue increased \$4.3 million, or 27.4%, to \$19.9 million in the six month period ended September 30, 2015, compared to \$15.6 million in the six month period ended September 30, 2014. These fluctuations are described in more detail below.

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

	Three Months Ended September 30,		Dollar Change	% Change
	2015	2014		
Costs related to:				
Amortization of internally developed software	\$1,323	\$991	\$332	33.5%
Call center operation	1,347	1,410	(63)	(4.5)%
Obtaining and processing data	7,364	5,639	1,725	30.6%
	\$10,034	\$8,040	\$1,994	24.8%
	Six Months Ended September 30,		Dollar Change	% Change
	2015	2014		
Costs related to:				
Amortization of internally developed software	\$2,589	\$1,874	\$715	38.2%
Call center operation	2,732	2,882	(150)	(5.2)%
Obtaining and processing data	14,606	10,888	3,718	34.1%
	\$19,927	\$15,644	\$4,283	27.4%

The increases in cost of revenue in the three and six months ended September 30, 2015, compared to the same period of Fiscal 2015 resulted primarily from expanding household coverage with existing data supplier agreements and the recognition of expense related to new data supplier agreements added in the third quarter of Fiscal 2015.

Gross margin as a percentage of revenue was as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2015	2014	2015	2014
Consolidated gross margin	69.4%	68.1%	67.0%	67.1%
Percentage of Revenue by Major Product Lines:				
TV Everywhere™	62.2%	52.8%	59.7%	50.1%
Movies Everywhere™ and OnDemand Everywhere®	35.3%	42.4%	38.2%	44.9%

The increase in gross margin as a percentage of revenue for the second quarter of Fiscal 2016 was due to the growth in revenue as well as currency fluctuations in our foreign locations. The decrease in gross margin as a percentage of revenue in the first half of Fiscal 2016 compared to the first half of Fiscal 2015 primarily reflected a shift in the mix of revenue as detailed above.

#### Operating Expenses

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





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

	Three Months Ended September		Dollar Change	% Change
	30, 2015	2014		
Operating expenses				
Essentials™	\$11,299	\$9,845	\$1,454	14.8%
Research, technology and innovation	4,666	3,073	1,593	51.8%
Stock-based compensation costs for iTVX	46	600	(554	) (92.3)%
Acquisition & reorganization costs	1,309	270	1,039	nm
Corporate	3,761	3,829	(68	) (1.8)%
	\$21,081	\$17,617	\$3,464	19.7%
	Six Months Ended September		Dollar Change	% Change
	30, 2015	2014		
Operating expenses				
Essentials®	\$22,499	\$19,462	\$3,037	15.6%
Research, technology and innovation	8,645	6,337	2,308	36.4%
Stock-based compensation costs for iTVX	(3,659	) 100	(3,759	) nm
Acquisition & reorganization costs	1,522	316	1,206	nm
Corporate	7,713	7,500	213	2.8%
	\$36,720	\$33,715	\$3,005	8.9%

## Essentials®

The increases in operating expenses for our Essentials® product lines in the second quarter and six months of Fiscal 2016 compared to the same periods in Fiscal 2015 were primarily due to increased headcount in our sales and client services groups, as well as operating costs relating the RPD Business acquired in December 2014.

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

## Research, Technology and Innovation

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

## Stock-based compensation costs for iTVX

Our acquisition of iTVX in August 2013 included contingent consideration which was based on future revenue achieved after the completion of approximately 2 years. The fair value of the contingent consideration as of the acquisition date was \$2.0 million. The contingent consideration payment was to be paid in the form of cash (25% of the total contingent consideration) and shares of our common stock (75% of the total contingent consideration). This award was revalued at the end of each reporting period and, based on our stock price as of March 31, 2015, the fair value of the award increased to \$4.5 million. See Note 4 of Notes to Consolidated Financial Statements in the Form 10-K for additional disclosures relating to the fair value determination for this contingent consideration liability.

During June 2015, we evaluated our accrual related to the contingent consideration and determined that the earn out provisions would not be fully met. Based on this determination, we reduced our accrual by \$4.0 million during the first quarter of Fiscal 2016, and offset receivables of \$0.3 million which related to the acquisition. The net amount of \$3.7 million was recorded as a reduction to selling, general and administrative expenses in our Condensed Consolidated Statements of Operations during the first quarter of Fiscal 2016. In July 2015, an agreement was reached to pay the contingent consideration earlier than expected in the amount of approximately \$0.5 million in cash.

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## Acquisition and Reorganization Costs

The acquisition costs incurred in the second quarter and six months of Fiscal 2016 primarily relate to costs associated with the entry into the Merger Agreement with comScore. The costs incurred during the Fiscal 2015 periods include costs relating to acquisition due diligence, such as legal and other professional services.

## Corporate

The increase in Corporate expenses in the six months of Fiscal 2016 compared to the same period of Fiscal 2015 were primarily due to increased occupancy expenses.

## Income Taxes

Our effective tax rates are determined by excluding certain jurisdictions with net losses. Our tax provision for the first six months of Fiscal 2016 was 32.0%, primarily resulting from tax expense related to the increased amortization of indefinite-lived intangible assets.

We expect this tax expense related to indefinite-lived assets will continue until the company determines a valuation allowance against our net deferred tax assets is no longer required. This determination occurs when it is more likely than not that we will be able to realize our deferred tax assets, typically when profits are generated on a cumulative basis in future periods.

Our effective tax rate for the first six months of Fiscal 2015 was a benefit of 21.0%, due to the effect of allocations to discontinued operations.

## Income from Discontinued Operations, net of income taxes

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

	Three Months Ended September		Dollar Change	% Change
	30, 2015	2014		
Income from discontinued operations, net of income taxes	\$—	\$308	\$(308)	(100.0)%
	Six Months Ended September 30,		Dollar Change	% Change
	2015	2014		
Income from discontinued operations, net of income taxes	\$—	\$655	\$(655)	(100.0)%

We completed our sale of the PPT® business as of January 31, 2015. See additional information in Note 3 of the Notes to the Condensed Consolidated Financial Statements.

## Liquidity and Capital Resources

Our sources of liquidity include our cash and cash equivalents, marketable securities, cash expected to be generated from future operations and investments and our ability to borrow on our \$15.0 million line of credit. Based on our current financial projections and projected cash needs, we believe that our available sources of liquidity will be sufficient to fund our current operations, the continued current development of our business information services and other cash requirements through at least September 30, 2016.

Cash and cash equivalents and marketable securities decreased \$6.1 million to \$77.9 million at September 30, 2015 from March 31, 2015. This decrease resulted primarily from \$9.5 million used for the purchase of equipment and capitalized information technology costs, partially offset by \$2.8 million provided by operating activities and \$1.3 million related to the issuance of our common stock. Portions of our cash and cash equivalents are held in our foreign subsidiaries. In the event we repatriate these earnings, the earnings may be subject to United States federal, state and

foreign income taxes. As of September 30, 2015, we had \$2.9 million in foreign bank accounts which we plan to use to fund our international expansion and growth.

We had \$72.5 million invested in a fixed-income security mutual fund as of September 30, 2015. Fund values fluctuate in response to the financial condition of individual issues, general market and economic conditions and changes in interest rates. In general, when interest rates rise, security fund values fall and investors may lose principal value. While we currently have no plans or requirements to sell the securities in the foreseeable future, we are exposed to market risks and cannot predict what impact fluctuations in the market may have on the value of these funds.

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Accounts receivable, net of allowances, increased \$4.8 million to \$21.7 million at September 30, 2015 from March 31, 2015, primarily due to changes in revenue, offset by the timing of customer payments.

During the first six months of Fiscal 2016, we spent \$9.5 million on property and equipment, including \$8.6 million for the capitalization of internally developed software for our business information service offerings. We anticipate spending a total of approximately \$13.8 million in Fiscal 2016 on property and equipment, of which approximately \$9.7 million is anticipated for the capitalization of internally developed software, primarily for the development of systems for our Essentials® lines of business. The remaining amounts include purchases of computers, servers and networking equipment.

Accrued data provider liabilities increased \$2.5 million to \$9.2 million at September 30, 2015 from March 31, 2015, primarily due to increased expenses incurred related to our data suppliers and the timing of required payments.

Accrued compensation decreased \$5.2 million to \$6.5 million at September 30, 2015 from March 31, 2015, primarily due to a \$4.5 million decrease in the accrual for the contingent consideration associated with our acquisition of iTVX due to our determination that the earn out provisions would not be fully met. The contingent consideration liability of approximately \$0.5 million was paid in the second quarter of Fiscal 2016.

Deferred revenue and other credits increased \$0.6 million to \$4.5 million at September 30, 2015 from March 31, 2015, primarily due to the timing of billings as the balance includes amounts related to quarterly and annual subscriptions for our services, as well as the current portion of our deferred rent credits.

Deferred rent of \$2.5 million at September 30, 2015, which includes both the current and long-term portion, represents amounts received for qualified renovations to our corporate headquarters and our offices in New York and Portland, as well as free rent for a portion of the lease terms. The deferred rent related to qualified renovations is being amortized against rent expense over the remaining lease terms, which extend through June 30, 2023, at the rate of approximately \$67,000 per quarter. The deferred rent related to free rent is also being amortized against rent expense over the remaining lease terms and is expected to be approximately \$15,000 per quarter for the remainder of Fiscal 2016.

We currently have a revolving line of credit for \$15.0 million that matures February 1, 2017. Interest accrues on outstanding balances under the line of credit at a rate equal to LIBOR plus 2.0 percent and is adjusted on a quarterly basis, beginning as of March 31, 2015, based on agreed upon criteria. The maximum interest rate that can be charged is LIBOR plus 2 percent and the minimum rate is LIBOR plus 1.5 percent. Fees on the unused portion of the line are accrued at 0.15 percent per annum, and will also be adjusted on a quarterly basis. The maximum fee on the unused portion of the line is 0.25 percent per annum and the minimum rate is 0.10 percent per annum. The credit line is secured by substantially all of our assets. At September 30, 2015, issued and outstanding letters of credit of \$0.3 million were reserved against the line of credit and we had no outstanding borrowings under this agreement. The agreement contains certain liquidity, asset and financial covenants and, as of September 30, 2015, we were in compliance with those covenants.

### Off Balance Sheet Arrangements

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

### Critical Accounting Policies and Estimates

We reaffirm the critical accounting policies and estimates as reported in the Form 10-K.

### New Accounting Guidance

See Note 9 of Notes to Condensed Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

There have been no material changes in our reported market risks since the filing of the 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 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 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.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Since the public announcement of the merger on September 29, 2015, four putative shareholder class action lawsuits have been filed against Rentrak, its directors, comScore and Rum Acquisition Corporation, as described further below, in connection with Rentrak and comScore entering into the merger agreement. The four actions were filed in Multnomah County Circuit Court in the State of Oregon: (1) Nathan v. Rentrak Corporation, et al., No. 15CV27429, filed on October 9, 2015; (2) Blum v. Rentrak Corporation, et al., No. 15CV27443, also filed on October 9, 2015; (3) Stein v. Rentrak Corporation, et al., No. 15CV27520, filed on October 12, 2015; and (4) Sikorski v. Rentrak Corporation, et al., No. 15CV27932, filed on October 14, 2015. Each of the foregoing lawsuits was filed on behalf of a putative class of Rentrak shareholders against Rentrak, the individual members of Rentrak’s board of directors, and/or comScore and/or Rum Acquisition Corporation (the Nathan action does not name comScore or Rum Acquisition Corporation as defendants). The lawsuits allege variously that the individual members of Rentrak’s board of directors breached their fiduciary duties owed to Rentrak’s shareholders by approving the proposed merger for inadequate consideration; approving the merger to obtain unique benefits not shared equally with other Rentrak shareholders; failing to take steps to maximize the value paid to Rentrak shareholders; failing to take steps to ensure a fair process leading up to the proposed merger; agreeing to preclusive deal protection devices in the merger agreement; and failing to ensure that no conflicts exist between individual directors’ own interests and their fiduciary obligations to Rentrak’s shareholders. The Blum, Stein and Sikorski lawsuits also state claims against comScore and/or Rum Acquisition Corporation for aiding and abetting these alleged breaches of fiduciary duties. The plaintiffs in each of the lawsuits generally seek, among other things, declaratory and injunctive relief concerning the alleged breaches of fiduciary duties, injunctive relief prohibiting completion of the mergers, rescission of the merger if it is completed, an accounting by defendants, rescissionary damages, attorney’s fees and costs, and other relief. On October 22, 2015, in the Nathan lawsuit, plaintiffs filed a motion to consolidate the lawsuits and appoint Nathan as the lead plaintiff and Nathan’s counsel as lead counsel, and that motion is supported by the plaintiff’s counsel in the Blum, Stein and Sikorski lawsuits. This motion is pending with the court. Rentrak and its directors believe the lawsuits to be without merit and intend to defend the lawsuits vigorously.

ITEM 1A. RISK FACTORS

The Form 10-K includes a detailed discussion of our risk factors. Except for the following, there have been no material changes from the risk factors previously disclosed in the Form 10-K. Accordingly, the information in this Form 10-Q should be read in conjunction with the risk factors and information disclosed in the Form 10-K.

Risks Related to the Merger

Our proposed merger with comScore may not be completed within the expected time frame, or at all, and the failure to complete the merger could adversely affect our business and the market price of our common stock.

On September 29, 2015, we entered into the Merger Agreement with comScore and Merger Sub, pursuant to which Rentrak would become a wholly-owned subsidiary of comScore if the Merger is completed. The Merger Agreement is subject to closing conditions beyond our control, including the approval requirement that holders of more than 50% of our outstanding common stock adopt the Merger Agreement and the expiration or termination of the required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and there is no guarantee that these conditions will be satisfied in a timely manner or at all. If any of the conditions to the proposed Merger are not satisfied (or waived by the other party), the Merger might not be completed. In addition, the Merger Agreement may be terminated under specified circumstances.

Failure to complete the Merger could adversely affect our business and the market price of our common stock in a number of ways, including:

- If the Merger is not completed, and no other party is willing and able to acquire us at an equivalent exchange ratio or higher, on terms acceptable to us, the share price of our common stock is likely to decline;
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We have incurred, and continue to incur, significant expenses for professional services in connection with the proposed Merger, for which we will have received little or no benefit if the merger is not completed. Many of these fees and costs will be payable even if the merger is not completed and may relate to activities that we would not have undertaken other than to complete the Merger;

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A failed Merger may result in negative publicity and/or give a negative impression of us in the investment community or business community generally; and

If the Merger Agreement is terminated under specified circumstances, we may be required to pay comScore a \$28.5 million termination fee.

The announcement and pendency of our proposed merger with comScore could adversely affect our business, financial condition, and results of operations.

The announcement and pendency of our proposed merger with comScore could disrupt our business and create uncertainty about it, which could have an adverse effect on our business, financial condition, and results of operations, regardless of whether the merger is completed. These risks to our business, all of which could be exacerbated by a delay in the completion of the merger, include:

- diversion of significant management time and resources towards the completion of the merger;
- impairment of our ability to attract and retain key personnel;
- difficulties maintaining relationships with employees, customers, and other business partners;
- restrictions on the conduct of our business prior to the completion of the merger, which prevent us from taking specified actions without the prior consent of comScore, which we might otherwise take in the absence of the Merger Agreement; and
- litigation relating to the merger and the related costs.

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## ITEM 6. EXHIBITS

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

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
2.1	Agreement and Plan of Merger and Reorganization, dated as of September 29, 2015, by and among comScore, Inc., a Delaware corporation, Rum Acquisition Corporation, a wholly owned subsidiary of comScore, Inc. and an Oregon corporation, and Rentrak Corporation, an Oregon corporation.	8-K	000-15159	2.1	9/30/2015	
3.1	Amendment to Rentrak bylaws	8-K	000-15159	3.1	9/30/2015	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).					X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.					X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X



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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: November 4, 2015

RENTRAK CORPORATION

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