RENTRAK CORP
Form 10-Q
February 06, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2007

OR

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission file number: 0-15159

RENTRAK CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

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

Common stock $0.001 par value	**10,669,227**
(Class)	(Outstanding at February 4, 2008)

RENTRAK CORPORATION

FORM 10-Q

INDEX

Rentrak Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except per share amounts)

	December 31, 2007	March 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 22,110	$ 11,351
Marketable securities	12,388	22,105
Accounts receivable, net of allowances for doubtful accounts of $488 and $596	17,730	19,577(1)
Note receivable	396	385
Advances to program suppliers, net of program supplier reserves of $13 and $23	89	166
Taxes receivable and prepaid taxes	345	32(1)
Deferred income tax assets	77	77
Other current assets	973	574
Total Current Assets	54,108	54,267(1)
Property and Equipment, net of accumulated depreciation of $7,357 and $6,325	5,876	5,097
Long-term deferred tax asset	260	
Other Assets	641	652
Total Assets	$ 60,885	$ 60,016(1)
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 10,986	$ 13,707
Accrued liabilities	424	455
Deferred rent, current portion	90	90
Accrued compensation	1,117	1,631
Deferred revenue	776	460
Total Current Liabilities	13,393	16,343(1)
Deferred Rent, long-term portion	1,004	1,050
Deferred Income Tax Liabilities		333
Taxes payable, long term	1,571	
Notes Payable	962	955
Total Liabilities	16,930	18,681(1)
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: 10,769 and 10,724	11	11
Capital in excess of par value	48,925	48,155
Accumulated other comprehensive income	406	132
Accumulated deficit	(5,387)	(6,963)(1)
Total Stockholders Equity	43,955	41,335(1)
Total Liabilities and Stockholders Equity	$ 60,885	$ 60,016(1)

(1) Amount revised. See Note 8 of Notes to Condensed Consolidated Financial Statements.

See accompanying Notes to Condensed Cosolidated Financial Statements.

Rentrak Corporation and Subsidiaries

Condensed Consolidated Income Statements

(Unaudited)

(In thousands, except per share amounts)

	For the Three Months Ended December 31, 2007	For the Three Months Ended December 31, 2006	For the Nine Months Ended December 31, 2007	For the Nine Months Ended December 31, 2006
Revenue	$ 23,875	$ 26,663(1)	$ 70,890	$ 77,609(1)
Cost of sales	16,937	19,329	47,827	53,359
Gross margin	6,938	7,334	23,063	24,250
Selling and administrative	6,319	6,333	19,036	18,239
Income from operations	619	1,001(1)	4,027	6,011(1)
Other income (expense):				
Interest income	399	420	1,216	1,115
Interest expense	(3)	(3)	(7)	(5)
	396	417	1,209	1,110
Income before income taxes	1,015	1,418(1)	5,236	7,121(1)
Provision for income taxes	468	603(1)	2,331	2,809(1)
Net income	$ 547	$ 815(1)	$ 2,905	$ 4,312(1)
Basic net income per share	$ 0.05	$ 0.08	$ 0.27	$ 0.41
Diluted net income per share	$ 0.05	$ 0.07(1)	$ 0.26	$ 0.39
Shares used in per share calculations:				
Basic	10,757	10,666	10,747	10,639
Diluted	11,280	11,249	11,263	11,179

(1) Amount revised. See Note 8 of Notes to Condensed Consolidated Financial Statements.

See accompanying Notes to Condensed Cosolidated Financial Statements.

Rentrak Corporation and Subsidiaries

Condensed Consolidated Cash Flows

(Unaudited)

(In thousands, except per share amounts)

	For the Nine Months Ended December 31, 2007	2006
Cash flows from operating activities:		
Net income	$ 2,905	$ 4,312(1)
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Tax benefit from stock-based compensation	483	393
Depreciation and amortization	1,043	1,244
Loss on disposal of fixed assets	13	37
Adjustment to allowance for doubtful accounts	(108)	118
Stock-based compensation	753	668
Excess tax benefits from stock-based compensation	(260)	(151)
Deferred income taxes	(593)	(96)
(Increase) decrease in:		
Accounts receivable	1,955	(596)(1)
Note receivable issued to customer	(11)	(380)
Advances to program suppliers	76	(114)
Taxes receivable and prepaid taxes	(313)	
Other assets	(388)	(258)
Increase (decrease) in:		
Accounts payable	(2,718)	(2,681)
Taxes payable	242	(830)(1)
Accrued liabilities and compensation	(545)	54
Deferred rent	(46)	897
Deferred revenue and other liabilities	321	(37)
Net cash provided by operating activities	2,809	2,580
Cash flows from investing activities:		
Purchases of marketable securities		(7,270)
Maturities of marketable securities	9,717	
Purchase of property and equipment	(1,835)	(2,846)
Note receivable payments received		215
Net cash provided by (used in) investing activities	7,882	(9,901)
Cash flows from financing activities:		
Proceeds from notes payable		914
Proceeds from issuance of common stock	756	225
Excess tax benefits from stock-based compensation	260	151
Repurchase of common stock	(1,222)	(1,948)
Net cash used in financing activities	(206)	(658)
Effect of foreign exchange translation on cash	274	
Increase (decrease) in cash and cash equivalents	10,759	(7,979)
Cash and cash equivalents:		
Beginning of period	11,351	15,666
End of period	$ 22,110	$ 7,687
Supplemental cash flow information:		

Cash paid during the period for income taxes, net	$	2,512	$	3,340
Supplemental non-cash information				
Common stock withheld in payment of exercise price for stock options and warrants	$	179	$	922

(1) Amount revised. See Note 8 of Notes to Condensed Consolidated Financial Statements.

See accompanying Notes to Condensed Cosolidated Financial Statements.

Rentrak Corporation and Subsidiaries

Condensed Consolidated Stockholders Equity

(Unaudited)

(In thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Capital In Excess of Par Value	Cumulative Other Comprehensive Income	Accumulated Deficit	Total Stockholders Equity
Balance at March 31, 2005	10,544,913	$ 10	$ 46,988	$ 181	$ (17,246)	$ 29,933
Net income					4,396(1)	4,396(1)
Common stock issued pursuant to stock plans	152,423	1	707			708
Fair value of options granted to non-employee			219			219
Income tax benefit from stock option exercises			155			155
Balance at March 31, 2006	10,697,336	11	48,069	181	(12,850)(1)	35,411(1)
Net income					5,887(1)	5,887(1)
Unrealized loss on foreign currency translation				(49)		(49)
Comprehensive income						5,838(1)
Common stock issued pursuant to stock plans	321,359		465			465
Common stock used to pay for option exercises and taxes	(114,172)		(131)			(131)
Common stock issued pursuant to warrant exercise	12,705					
Deferred stock units granted to Board of Directors			358			358
Stock-based compensation expense - options			498			498
Common stock repurchased	(193,500)		(1,948)			(1,948)
Income tax benefit from stock option and warrant exercises			844			844
Balance at March 31, 2007	10,723,728	11	48,155	132	(6,963)(1)	41,335(1)
Net income					2,905	2,905
Unrealized gain on foreign currency translation				274		274
Comprehensive income						3,179
Common stock issued pursuant to stock plans	154,263		935			935
Common stock used to pay for option exercises and taxes	(13,193)		(179)			(179)
Common stock issued in exchange for deferred stock units	9,000					
Deferred stock units granted to Board of Directors, net			511			511
Stock-based compensation expense - options			242			242
Common stock repurchased	(104,571)		(1,222)			(1,222)
					(1,329)	(1,329)

Cumulative effect of adoption of FIN 48						
Income tax benefit from stock-based compensation			483			483
Balance at December 31, 2007	10,769,227	$ 11	$ 48,925	$ 406	$ (5,387)	$ 43,955

(1) Amount revised. See Note 8 of Notes to Condensed Consolidated Financial Statements.

See accompanying Notes to Condensed Cosolidated Financial Statements.

RENTRAK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Rentrak Corporation have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with the accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three and nine-month periods ended December 31, 2007 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2008. The Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes thereto included in our 2007 Annual Report to Shareholders.

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 prior year amounts to conform to the current year presentation. See also Note 8 for information regarding the correction of prior period misstatements.

Note 2. Net Income Per Share

Basic net income per share (EPS) and diluted EPS are computed using the methods prescribed by Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. Following is a reconciliation of the shares used for the basic EPS and diluted EPS calculations (in thousands):

	Three Months Ended Dec. 31,		Nine Months Ended Dec. 31,	
	2007	2006	2007	2006
Basic EPS:				
Weighted average number of shares of common stock outstanding	10,757	10,666	10,747	10,639
Diluted EPS:				
Effect of dilutive deferred stock units, stock options and warrants	523	583	516	540
	11,280	11,249	11,263	11,179
Options not included in diluted EPS because the exercise price of the options was greater than the average market price of the common shares for the period				

Note 3. Business Segments, Significant Suppliers and Major Customers

We operate in two business segments, our Pay-Per-Transaction (PPT) Division and Advanced Media and Information (AMI) Division, and, accordingly, we report certain financial information by individual segment under this structure. The PPT Division focuses on managing our business operations that facilitate the delivery of home entertainment content products and related rental and sales information for that content to our Participating Retailers on a revenue sharing basis. The AMI Division concentrates on the management and growth of our Essentials Suite of business intelligence services, primarily offered on a recurring subscription basis, which are no longer in the early stages. Effective April 1, 2007, we realigned and moved our Direct Revenue Sharing (DRS) line of business from the AMI Division to the PPT Division. Prior period information has been reclassified to conform to the current presentation.

We did not have any revenues from our Other Division in the fiscal 2008 or fiscal 2007 periods.

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

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

	PPT	AMI	Other(1)	Total
Three months ended December 31, 2007				
Sales to external customers	$ 21,190	$ 2,685	$	$ 23,875
Depreciation and amortization	22	189	184	395
Income (loss) from operations	2,828	344	(2,553)	619
Three months ended December 31, 2006				
Sales to external customers(2)	$ 24,723	$ 1,940	$	$ 26,663
Depreciation and amortization	13	309	100	422
Income (loss) from operations(2)	4,315	(251)	(3,063)	1,001
Nine months ended December 31, 2007				
Sales to external customers	$ 63,339	$ 7,551	$	$ 70,890
Depreciation and amortization	60	516	467	1,043
Income (loss) from operations	11,241	963	(8,177)	4,027
Nine months ended December 31, 2006				
Sales to external customers(2)	$ 71,981	$ 5,628	$	$ 77,609
Depreciation and amortization	36	961	247	1,244
Income (loss) from operations(2)	15,353	(709)	(8,633)	6,011

(1) Includes revenue and expenses relating to products and/or services which are still in early stages, as well as corporate expenses and other expenses which are not allocated to a specific segment.

(2) Amount revised. See Note 8.

Additional results of operations information by segment was as follows:

	Three Months Ended December 31, (1)			
	2007		2006(2)	
(Dollars in thousands)	Dollars	% of revenues	Dollars	% of revenues
PPT Division				
Revenues	$ 21,190	100.0%	$ 24,723	100.0%
Cost of sales	16,395	77.4	18,774	75.9
Gross margin	$ 4,795	22.6%	$ 5,949	24.1%
AMI Division				
Revenues	$ 2,685	100.0%	$ 1,940	100.0%
Cost of sales	542	20.2	555	28.6
Gross margin	$ 2,143	79.8%	$ 1,385	71.4%

	Nine Months Ended December 31, (1)			
	2007		2006(2)	
(Dollars in thousands)	Dollars	% of revenues	Dollars	% of revenues
PPT Division				
Revenues	$ 63,339	100.0%	$ 71,981	100.0%

Cost of sales		46,408	73.3		51,725	71.9
Gross margin	$	16,931	26.7%	$	20,256	28.1%
AMI Division						
Revenues	$	7,551	100.0%	$	5,628	100.0%
Cost of sales		1,419	18.8		1,634	29.0
Gross margin	$	6,132	81.2%	$	3,994	71.0%

(1) Percentages may not add due to rounding.

(2) Amount revised. See Note 8.

Revenue by service activity was as follows (in thousands):

	Three Months Ended Dec. 31, 2007	Three Months Ended Dec. 31, 2006	Nine Months Ended Dec. 31, 2007	Nine Months Ended Dec. 31, 2006
Order processing fees	$ 2,362	$ 2,590	$ 5,814	$ 6,823
Transaction fees	14,033	16,464(1)	41,788	47,547(1)
Sell-through fees	3,227	3,715	10,693	11,599
DRS fees	1,387	1,736	4,563	5,358
Essentials Suite	2,685	1,940	7,551	5,628
Other	181	218	481	654
	$ 23,875	$ 26,663(1)	$ 70,890	$ 77,609(1)

(1) Amount revised. See Note 8.

During the three and nine-month periods ended December 31, 2007 and 2006, we had Program Suppliers that supplied product which generated in excess of 10% of our total revenues as follows:

	Three Months Ended Dec. 31, 2007	Three Months Ended Dec. 31, 2006	Nine Months Ended Dec. 31, 2007	Nine Months Ended Dec. 31, 2006
Program Supplier 1	20%	17%	17%	16%
Program Supplier 2	17%	21%	17%	18%
Program Supplier 3	16%	17%	17%	14%
Program Supplier 4	13%	1%	13%	1%
Program Supplier 5	6%	16%	7%	17%
Program Supplier 6	1%	8%	1%	10%

There were no other Program Suppliers who provided product that accounted for 10% or more of our total revenues for the three or nine-month periods ended December 31, 2007 or 2006. Our agreement with our fifth largest Program Supplier expired March 31, 2007. While we continue to receive some product from one of their divisions, the amount as a percentage of revenues has declined significantly. Also, we are no longer receiving product from our sixth largest Program Supplier as they formed an exclusive arrangement with a major retailer in the home video rental industry. Although management does not believe that the relationships with the remaining significant Program Suppliers will be terminated in the near term, a loss of any one of these suppliers could have an adverse effect on our financial condition and results of operations.

There were no customers that accounted for 10% or more of our total revenue in the three and nine-month periods ended December 31, 2007 or 2006.

Note 4. Stock-Based Compensation

We account for stock-based compensation pursuant to SFAS No. 123R, Share-Based Payment.

Stock option activity for the first nine months of fiscal 2008 was as follows:

	Options Outstanding		Weighted Average Exercise Price
Outstanding at March 31, 2007	1,185,664	$	6.10
Granted			
Exercised	(154,263)		6.06
Forfeited	(825)		3.84
Outstanding at December 31, 2007	1,030,576		6.11

As of December 31, 2007, unrecognized stock-based compensation related to outstanding, but unvested options was $0.3 million, which will be recognized over the weighted average remaining vesting period of two years.

On April 2, 2007, we granted 9,000 deferred stock units (DSUs) to each non-employee member of our Board of Directors, for a total of 45,000 DSUs, which vest one year from the date of grant. The fair market value of our common stock on the date of grant was $15.45 per share. During the second quarter of fiscal 2008, 9,000 unvested deferred stock units previously granted were forfeited due to the retirement of a member of the Board of Directors. Accordingly, the total value of the remaining DSUs granted was $0.6 million. As of December 31, 2007, the unrecognized compensation expense related to unvested DSUs was $0.1 million, which will be recognized over the weighted average remaining vesting period of three months.

DSU activity for the first nine months of fiscal 2008 was as follows:

	Units Outstanding	Weighted Average Grant Date Fair Value
Outstanding at March 31, 2007(1)	45,000	$ 10.04
Granted	45,000	15.45
Issued	(9,000)	10.04
Forfeited	(9,000)	15.45
Outstanding at December 31, 2007	72,000	12.75

(1) These DSU awards vested in full on June 15, 2007, but will not be issued until the recipient ceases to be a director.

Note 5. Repurchase of Shares

During the nine-month period ended December 31, 2007, we repurchased a total of 104,571 shares of our common stock at an average price of $11.69 per share, which totaled approximately $1.2 million. The stock repurchase plan, approved by our Board of Directors in January 2006, authorizes the purchase of up to 1,000,000 shares of our common stock and does not have an expiration date. At December 31, 2007, 701,929 shares remained available for repurchase under this plan.

From January 1, 2008 through February 4, 2008, we have repurchased a total of 100,000 shares of our common stock at an average price of $11.59 per share, which totaled approximately $1.2 million. As of February 4, 2008, 601,929 shares remained available for repurchase under this plan.

Note 6. Adoption of Interpretation No. 48

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which is an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in tax positions and applies to situations where there is uncertainty as to the timing of the deduction, the amount of the deduction, or the validity of the deduction. FIN 48 requires that we adjust our financial statements to reflect only those tax positions that are more-likely-than-not to be sustained on audit, based on the technical merits of the position. FIN 48 requires that any necessary adjustment be recorded directly to the beginning balance of retained earnings in the period of adoption and reported as a change in accounting principle, if material.

The cumulative effect of applying FIN 48 has been recorded as an increase of $1.3 million to our Accumulated Deficit and a corresponding increase to the long-term portion of Taxes Payable as it is not likely that this amount will be paid in the next twelve months. We also began including income tax related interest and penalties expense in our provision for income taxes on our Condensed Consolidated Income Statements, in accordance with paragraph 19 of FIN 48. The amount of related interest and penalties expense for the three and nine-month periods ended December 31, 2007 was approximately $12,000 and $42,000, respectively, net of tax benefits.

As of April 1, 2007, the total amount of unrecognized tax benefits was $1.7 million. This amount includes cumulative penalties and interest as of the date of adoption of $0.3 million. Unrecognized tax benefits decreased by $0.1 million in the three and nine-month periods ended December 31, 2007 and totaled $1.6 million at December 31, 2007. All unrecognized tax benefits would affect the effective tax rate if recognized.

We file federal income tax returns, Canadian income tax returns and State of Oregon income tax returns, as well as multiple other state and local jurisdiction tax returns and have open tax periods in each of the jurisdictions for the years ended March 31, 2000 through March 31, 2007. A potential reduction to the unrecognized tax benefits of approximately $0.4 million, before interest, relating to deductions for certain reserves and amortizable assets, may occur in the next twelve months as a result of a lapse of the applicable statute of limitations. We will continue to accrue interest related to these unrecognized tax positions during the next twelve months.

Note 7. Line of Credit Amendment

On December 1, 2007, the expiration date on our revolving line of credit agreement with Wells Fargo Bank was amended from December 1, 2007 to December 1, 2008.

Note 8: Correction of Prior Period Misstatements

During the third quarter of fiscal 2008, we discovered an error in our process relating to the accrual for guaranteed minimum revenues from our customers which caused revenues and the related income tax expense to be overstated in the prior eight fiscal quarters by $576,000 and $240,000, respectively. Accordingly, our accumulated deficit through the second quarter of fiscal 2008 was understated by $336,000. This error had no impact on previously reported cash flows from operating, financing or investing activities and is considered to be immaterial to the previously reported results of operations as well as our financial position. Since the cumulative impact of this error would be material to the results of the current quarter ended December 31, 2007, we applied the guidance of Staff Accounting Bulletin No. 108 (SAB 108). This guidance requires that the prior period financial statements be corrected, even though such revision previously was, and continues to be, immaterial to the prior period financial statements.

The following table represents the impact of the misstatement on our income statements and balance sheets for all of the prior periods (in thousands except per share amounts):

	Revenue	Income Tax Provision	Net Income	Basic EPS(1)	Diluted EPS(1)
FY06 Q3	$ 36	$ 13	$ 23	$ 0.00	$ 0.00
FY06 Q4	75	28	47	0.00	0.00
FY06	$ 111	$ 41	$ 70	$ 0.01	$ 0.01