HARNETT GORDON D
Form 4
August 05, 2010

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
HARNETT GORDON D

(Last) (First) (Middle)

POLYONE CENTER, 33587 WALKER ROAD

(Street)

AVON LAKE, OH 44012

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
POLYONE CORP [POL]

3. Date of Earliest Transaction (Month/Day/Year)
08/03/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	08/03/2010		M		15,000	A	$ 9	31,811	D	
Common Stock	08/03/2010		F		12,123	D	$ 11.135	19,688	D	
Common Stock								133,899	I	Deferred Comp Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amou Underlying Secur (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Am or Nur of S
Non-Qualified Stock Option (right to buy)	$ 9	08/03/2010		M			15,000	09/06/2000	09/06/2010	Common Stock	15

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HARNETT GORDON D POLYONE CENTER 33587 WALKER ROAD AVON LAKE, OH 44012	X			

Signatures

By: Lisa K. Kunkle, Power of Attorney For: Gordon D. Harnett	08/05/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Global Relationships with Indefinite Lives

Prior to the acquisition of the EDI Business, we held long-term relationships with each of the six major Hollywood studios (Global Clients) in the U.S. and Nielsen s EDI held these relationships abroad. Currently, there are no other competitors who provide this service, and we believe that the barriers to entry are quite high because the Global Clients prefer a single provider with world-wide reporting capabilities. In particular, our service provides these Global Clients with access to information relating to all other market participants. Should one terminate its relationship with us, they would no longer have access to world-wide data on all market participants and, currently, similar information is not available elsewhere. Our turnover rate of clients has been minimal over the life of our product, and, given our service offerings, we do not expect our customers to change their relationships with us. Due to EDI Business s established position with these Global Clients in foreign markets, the absence of any competitor who can provide world-wide coverage, the tenure of our prior U.S. relationship with these Global Clients, and the fact that, historically, these Global Clients have preferred only one provider, this intangible asset was determined to have an indefinite life.

Please also refer to Note 7. Acquisition of Nielsen EDI Business, which is included in the Consolidated Financial Statements in our 2010 Annual Report to Shareholders for information relating to determining the amortization period for the other intangible assets.

Note 9. Termination of President and Related Severance

In November 2010, we eliminated the position of President, which had been held by Mr. Ken Papagan. In connection with this termination and pursuant to Mr. Papagan s employment agreement, Mr. Papagan will receive a severance package. Mr. Papagan will remain a consultant to Rentrak to ensure a smooth transition of projects under his management.

Note 10. Amendment to Data Partner Agreement

In the third quarter of Fiscal 2011, we amended our agreement with one of our data partners, which resulted in $0.7 million charge in our AMI Division related to data and/or services received in calendar 2010. This charge was included as a component of Cost of Sales in our Condensed Consolidated Statements of Operations for the three and nine-month periods ended December 31, 2010. This amendment allows us to integrate segmentation data, thus providing more robust information reporting to our clients, and furthers our efforts toward moving our products from data-based to more comprehensive and applicable knowledge-based products and services. Additionally, the agreement was converted from a variable agreement based on revenues to a fixed-fee arrangement.

Note 11. Corporate Headquarters Lease Amendment

In December 2010, we amended our lease for our headquarters located in Portland, Oregon. This amendment, which is effective January 2011, reduces our square footage by 3,300 square feet, lowers occupancy expenses over the next five years and includes a tenant improvement allowance of $0.8 million. Total square footage occupied after the amendment will be 55,518 square feet. In addition, we are in the process of finalizing a $0.5 million forgivable loan from the State of Oregon that will also be for tenant improvements.

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We also negotiated tax credits with the City of Portland and State of Oregon that are based on capital spending and are expected to lower our overall state and local property and income tax obligations for the next five years.

Note 12. Debt Covenant Waiver

We currently have a revolving line of credit for $15.0 million, with a maturity of December 1, 2011. Interest on the line of credit is LIBOR plus 1.5 percent. The credit line is secured by substantially all of our assets and includes certain financial covenants. One of those covenants relates to reporting pretax profit of not less than $1 for each fiscal quarter end. Wells Fargo Bank N.A. waived this requirement for the quarter ended December 31, 2010. At December 31, 2010, we had no outstanding borrowings under this agreement.

Note 13. New Accounting Guidance

Recent Accounting Guidance Not Yet Adopted

ASU 2010-17

In April 2010, the FASB issued Accounting Standards Update (ASU) 2010-17, Revenue Recognition Milestone Method, which provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Research or development arrangements frequently include payment provisions whereby a portion or all of the consideration is contingent upon milestone events such as successful completion of phases in a drug study or achieving a specific result from the research or development efforts. An entity often recognizes these milestone payments as revenue in their entirety upon achieving the related milestone, commonly referred to as the milestone method. The amendments in ASU 2010-17 are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. We do not expect the adoption of the provisions of ASU 2010-17 to have a material effect on our financial position, results of operations or cash flows.

Note 14. Subsequent Event

Acquisition of Media Salvation

On January 3, 2011, we acquired the outstanding stock of Media Salvation, Inc., for an initial cash payment of $250,000. The stock purchase agreement contains contingent provisions relating to additional amounts, which may be paid based on achieving certain performance requirements. We are in the process of evaluating the fair value of this transaction and will complete that evaluation during our fourth quarter ending March 31, 2011. Media Salvation will be reported as a component of our Home Entertainment Division.

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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 discussions under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations regarding business trends, revenue growth, gross profit margin and liquidity and our ability to generate a long-term return on our investment in our AMI Division) 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 may, will, expects, intends, anticipates, estimates or continues or the negative thereof or variations thereon or comparable terminology. The following factors are among the factors that could cause actual results to differ materially from the forward-looking statements: our ability to retain and grow our customer base of retailers participating in the Pay-Per-Transaction system (the PPT System) (Participating Retailers); the financial stability of the Participating Retailers and performance of their obligations under our PPT System; business conditions and growth in the video industry and general economic conditions, both domestic and international; customer demand for movies in various media formats; competitive factors, including increased competition, expansion of revenue sharing programs other than the PPT System by motion picture studios or other licensors or owners of the rights to certain video programming content (Program Suppliers) and new technology; the continued availability of home entertainment content products (DVDs, Blu-ray Discs, etc.) (collectively Units) leased/licensed to home video specialty stores and other retailers from Program Suppliers; the loss of significant Program Suppliers; our ability to successfully develop and market new services, including our business intelligence services, to create new revenue streams; the development of similar business intelligence services by competitors with substantially greater financial and marketing resources than our company; and our ability to successfully integrate business acquisitions into our operations. This Quarterly Report on Form 10-Q further describes some of these factors. In addition, some of the important factors that could cause actual results to differ from our expectations are discussed in Item 1A to our Fiscal 2010 Form 10-K, which was filed with the Securities and Exchange Commission on June 14, 2010. These risk factors have not significantly changed since the filing of the Fiscal 2010 Form 10-K.

Overview and Business Trends

Our corporate structure includes separate Home Entertainment and Advanced Media and Information (AMI) operating divisions and, accordingly, we report certain financial information by individual segment under this structure.

Our Home Entertainment Division manages our business operations that deliver Units and related rental and sales information for the Units to home video specialty stores and other retailers, on a revenue sharing basis. We lease product from various suppliers, typically motion picture studios. Under our Pay-Per-Transaction (PPT) System, retailers sublease that product from us and rent it to consumers. Participating Retailers then share a portion of the revenue from each retail rental transaction with us and we share a portion of the revenue with the studio. Since we collect, process and analyze rental and sales information at the title level, we report that information to both the studios and the respective retailers.

Our Home Entertainment Division also includes our Direct Revenue Sharing (DRS) services, which encompass the collection, tracking, auditing and reporting of transaction and revenue data generated by DRS retailers, such as Blockbuster Entertainment, Netflix and kiosk companies, to our respective DRS clients, for rented entertainment content received both on physical product as well as digitally, under established agreements on a fee for service basis.

Our AMI Division manages our Essentials Suite of business information services. Our Essentials Suite software and services, offered primarily on a recurring subscription basis, provide unique data collection, management, analysis and reporting functions, resulting in business information valuable to our clients.

The Home Entertainment Division

The financial results from the Home Entertainment Division continue to be affected by the changing dynamics in the home video rental market as well as overall economic trends and conditions. This market is highly competitive and influenced greatly by consumer spending patterns and behaviors. The end consumer has a wide variety of choices from which to select entertainment content and can easily shift from one provider to another. Some examples include renting product from our Participating Retailers or other retailers, purchasing previously viewed Units from our Participating Retailers or other retailers, ordering product via online subscriptions and/or online distributors (mail delivery), renting or purchasing product from kiosk locations, subscribing to at-home movie channels, downloading or streaming content via the Internet, purchasing and owning the Unit directly, or selecting an at-home pay-per-view or on demand option from a satellite or cable provider. Our PPT System focuses on the traditional brick and mortar retailer. We believe that our system successfully addresses the many choices available to consumers and affords our Participating Retailers the opportunity to stock their stores with a wider

selection of titles and a greater supply of popular box office releases. Many of our arrangements are structured so that the Participating Retailers pay minimal upfront fees and lower per transaction fees in exchange for ordering Units of all titles offered by a particular Program Supplier (referred to as output programs). Since these output programs usually result in more overall Units rented, our Participating Retailers revenue and the corresponding share with the studios also increase.

In an effort to stabilize and maintain our current level of overall Home Entertainment Division revenue and earnings, we have implemented strategies to obtain new Participating Retailers, as well as assist in the retention and growth of our current Participating Retailers. The popularity of other choices an end consumer has to obtain entertainment content has been growing and our Participating Retailers market share has been negatively affected. Thus, for the foreseeable future, we expect our revenues in the Home Entertainment Division to continue to decline.

During May 2010, a major brick and mortar retailer, Movie Gallery, announced the closure of all of its stores. This action, which represents over 2,000 brick and mortar locations, will most likely cause consumer spending to shift to other retailers and/or increase consumers usage of other alternatives, like kiosks, mail subscriptions or online delivery options. Also, during September 2010, Blockbuster Entertainment (Blockbuster) filed for Chapter 11 bankruptcy protection. While Movie Gallery and Blockbuster were not direct customers of ours, we believe the major brick and mortar retailers share of the overall industry is contracting as a result of these closures and related financial events. However, we also believe this presents opportunities that potentially benefit our Participating Retailers through increased traffic from new customers and the opportunity to expand their businesses through the addition of store locations; it is too soon to predict what effect, if any, this will have on our future financial results.

We continue to be in good standing with our Program Suppliers, and we make on-going efforts to strengthen those business relationships through enhancements to our current service offerings and the development of new service offerings. We are also continually seeking to develop business relationships with new Program Suppliers. Our relationships with Program Suppliers typically may be terminated without cause upon thirty days written notice by either party.

AMI Division

We continue to allocate significant resources towards our business information service offerings, both those services that are currently operational as well as those that are in various stages of development. Our AMI Division revenue increased $12.2 million, or 94.2%, in the first nine months of Fiscal 2011 compared to the first nine months of Fiscal 2010. Our acquisition of the EDI Business, which occurred in January 2010, contributed $8.4 million of the revenue increase during the first nine months of Fiscal 2011, while our existing lines of business saw revenue growth of $3.8 million, or 29.5%.

The AMI Division lines of business that contribute most of the revenues are:

- Box Office Essentials, which includes the EDI Business;
- OnDemand Essentials;
- TV Essentials, which includes StationView Essentials, Mobile Essentials and Internet TV Essentials; and
- All Other, which primarily includes Home Entertainment Essentials.

Box Office Essentials reports domestic and international theatrical gross receipt ticket sales to motion picture studios and movie theater owners. We provide studios with access to box office performance data pertaining to specific motion pictures and movie theater circuits, both real-time and historical. Currently, Box Office Essentials delivers box office results from more than 60,000 movie screens across 26 countries.

OnDemand Essentials provides multi-channel operators, content providers (including broadcast/cable networks and studios) and advertisers with a transactional tracking and reporting system to view and analyze the performance of on demand content. We currently offer our services in the U.S. and Canada and provide information from over 80 million set-top boxes (STBs) from every major operator that offers video on demand (VOD) programming.

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TV Essentials is a comprehensive suite of research tools that calculates anonymous second-by-second audience viewing patterns in all facets of television programming and advertising including VOD, DVR, interactive and linear television. By providing transaction-level performance metrics from millions of STBs, TV Essentials provides insight into programming effectiveness, enabling networks and network operators to optimize their TV advertising inventory. Designed to handle data from the nation s 114.5 million television households, our systems can isolate individual market, network, series, or telecast performance, administer national and local estimates, and provide an evaluation of influencing factors such as psychographics and demographics for competitive, in-depth intelligence. We currently process data from 17 million televisions for linear TV and nearly all video on demand enabled STBs, estimated to be approximately 80 million.

We have contracts with various data providers that allow us to commercially integrate viewing data into TV Essentials. The integrated product was launched commercially in September 2010. Our systems have the capability to integrate third party segmentation databases with our data, which should help our clients clearly define their advertising messages to consumers. We continue to build our research capabilities, which are enabling us to move our products from data-based to more comprehensive and applicable knowledge-based products and services.

We intend to continue to invest in our existing, as well as new, business information services in the near-term as we expand the markets we serve and our service lines. The cost of these investments will likely lower our earnings in the short-term. Longer-term, we believe we will be able to leverage these investments and generate revenue and earnings streams that contribute to our overall success.

Sources of Revenue

Revenue by segment includes the following:

Home Entertainment Division

- Transaction fees are generated when Participating Retailers rent Units to consumers. Additionally, certain arrangements include guaranteed minimum revenues from our customers; which are recognized on the street (release) date, provided all other revenue recognition criteria are met (please refer to Critical Accounting Policies at the end of this Item 2);
- Sell-through fees are generated when Participating Retailers sell previously-viewed rental Units to consumers and/or buy-out fees generated when Participating Retailers purchase Units at the end of the lease term;
- DRS fees are generated from data tracking and reporting services provided to Program Suppliers; and
- Other fees, which primarily include order processing fees, are generated when Units are ordered by, and distributed to, Participating Retailers.

AMI Division

Subscription fee and other revenues, primarily relating to custom reports from:

- Box Office Essentials;
- OnDemand Essentials;
- TV Essentials, which includes StationView Essentials, Mobile Essentials and Internet TV Essentials; and

All Other, which primarily includes Home Entertainment Essentials.

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Results of Operations

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

	Home Entertainment	AMI	Other[1]	Total
Three months ended December 31, 2010				
Sales to external customers	$ 15,195	$ 8,521	$	$ 23,716
Gross margin	4,194	5,433		9,627
Income (loss) from operations	2,279	(559)	(3,731)	(2,011)
Three months ended December 31, 2009				
Sales to external customers	$ 18,804	$ 4,306	$	$ 23,110
Gross margin	4,532	2,069		6,601
Income (loss) from operations	2,709	(434)	(3,588)	(1,313)
Nine months ended December 31, 2010				
Sales to external customers	$ 47,350	$ 25,059	$	$ 72,409
Gross margin	14,067	17,258		31,325
Income (loss) from operations	8,398	1,495	(11,697)	(1,804)
Nine months ended December 31, 2009				
Sales to external customers	$ 53,168	$ 12,902	$	$ 66,070
Gross margin	14,482	7,940		22,422
Income (loss) from operations	8,786	698	(10,183)	(699)

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

Revenue

Revenue increased $0.6 million, or 2.6%, to $23.7 million in the three-month period ended December 31, 2010 (the third quarter of Fiscal 2011) compared to $23.1 million in the three-month period ended December 31, 2009 (the third quarter of fiscal 2010). Revenue increased $6.3 million, or 9.6%, to $72.4 million in the nine-month period ended December 31, 2010 compared to $66.1 million in the nine-month period ended December 31, 2009. The increases in revenue were due to increases in AMI revenue related to our acquisition of Nielsen s EDI Business in the fourth quarter of Fiscal 2010, as well as growth in other AMI lines of business, offset by declines in revenue from the Home Entertainment Division. These fluctuations are described in more detail below.

Home Entertainment Division

Revenue information related to our Home Entertainment Division was as follows (dollars in thousands):

	Three Months Ended Dec. 31, 2010	Three Months Ended Dec. 31, 2009	Dollar Change	% Change
Transaction fees	$ 9,680	$ 12,533	$ (2,853)	(22.8)%
Sell-through fees	2,316	2,765	(449)	(16.2)%
DRS	1,389	1,075	314	29.2%
Other	1,810	2,431	(621)	(25.5)%
	$ 15,195	$ 18,804	$ (3,609)	(19.2)%

	Nine Months Ended Dec. 31, 2010	2009	Dollar Change	% Change
Transaction fees	$ 30,646	$ 34,836	$ (4,190)	(12.0)%
Sell-through fees	7,536	8,306	(770)	(9.3)%
DRS	4,130	4,051	79	2.0%
Other	5,038	5,975	(937)	(15.7)%
	$ 47,350	$ 53,168	$ (5,818)	(10.9)%

The decreases in transaction fees were primarily due to fewer rental transactions at our Participating Retailers, which decreased by 16.2% and 12.4%, respectively, in the three and nine-month periods ended December 31, 2010, respectively, partially offset by a 1.5% and a 1.0% increase in the rate per transaction, which excludes the impact of minimum guarantees, in the three and nine-month periods

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ended December 31, 2010, respectively. Minimum guarantees decreased $1.2 million and $0.4 million in the three and nine-month periods ended December 31, 2010, respectively, due to the timing of releases. The decreases in rental transactions were due to fewer Participating Retailers, as well as continued changing market conditions.

The decreases in sell-through fees were primarily due to decreases in sell-through volume and the overall rate per transaction. The decreases in sell-through volume and rate per transaction were primarily due to an overall decline in Units available for sale. Units shipped decreased 22.5% and 14.1% for the three and nine-month periods ended December 31, 2010, respectively.

The increases in DRS revenue were primarily due to higher volumes of transactions from on-line retailers and kiosks, partially offset by fewer transactions as a result of Movie Gallery s store closures.

AMI Division

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

	Three Months Ended Dec. 31,		Dollar	
	2010	2009	Change	% Change
Box Office Essentials	$ 4,521	$ 1,570	$ 2,951	188.0%
OnDemand Essentials	1,995	1,600	395	24.7%
TV Essentials	1,704	751	953	126.9%
All Other	301	385	(84)	(21.8)%
	$ 8,521	$ 4,306	$ 4,215	97.9%

	Nine Months Ended Dec. 31,		Dollar	
	2010	2009	Change	% Change
Box Office Essentials	$ 13,389	$ 4,668	$ 8,721	186.8%
OnDemand Essentials	5,825	4,405	1,420	32.2%
TV Essentials	4,934	1,618	3,316	204.9%
TV Essentials - custom(1)		1,100	(1,100)	*
All Other	911	1,111	(200)	(18.0)%
	$ 25,059	$ 12,902	$ 12,157	94.2%

(1) During the second quarter of Fiscal 2010, we substantially completed a multi-year development contract with one customer, resulting in revenue of $1.1 million.

* Not meaningful.

The increases in Box Office Essentials revenues were primarily due to our acquisition of the EDI Business in the fourth quarter of Fiscal 2010, which contributed $2.9 million and $8.4 million in the three and nine-month periods ended December 31, 2010, respectively. Other components of Box Office Essentials also realized increases as a result of rate increases for existing accounts.

The increases in OnDemand Essentials revenues were due to a combination of adding new clients and providing custom reports and securing rate increases for existing clients.

The increases in TV Essentials revenues were primarily due to the addition of clients who subscribe to our systems and other fees relating to periodic custom work.

Revenues related to our Essentials business information service offerings increased primarily due to our continued investment in and successful marketing of these offerings and retention of clients. We expect continued future increases in our Essentials revenues as a result of further investments and additional successful launches of services.

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Cost of Sales

Cost of sales consists of Unit costs, transaction costs, sell-through costs, handling and freight costs in the Home Entertainment Division and costs in the AMI Division associated with certain Essentials business information service offerings. These expenditures represent the direct costs to produce revenues.

In the Home Entertainment Division, Unit costs, transaction costs and sell-through costs represent the amounts due to the Program Suppliers that hold the distribution rights to the Units. Freight costs represent the cost to pick, pack and ship orders of Units to the Participating Retailers. Our cost of sales can also be affected by the release dates of Units with guarantees. We recognize the guaranteed minimum costs on the release date. The terms of some of our agreements result in 100% cost of sales on titles in the first month in which the Unit is released, which results in lower margins during the initial portion of the revenue sharing period. Once the Unit s rental activity exceeds the required amount for these guaranteed minimums, margins generally expand during the second and third months of the Unit s revenue sharing period. However, since these factors are highly dependent upon the quality, timing and release dates of all new products, margins may not expand to any significant degree during any reporting period. As a result, it is difficult to predict the impact these Program Supplier Revenue Sharing programs with guaranteed minimums will have on future results of operations in any reporting period.

In the AMI Division, cost of sales primarily consists of costs associated with the operation of a call center for our Box Office Essentials services, as well as costs associated with amortizing capitalized internally developed software used to provide the corresponding services and direct costs incurred to obtain, cleanse and process data and maintain our systems.

Cost of sales decreased $2.4 million, or 14.7%, in the third quarter of Fiscal 2011 compared to the third quarter of Fiscal 2010 and decreased $2.6 million, or 5.9%, in the first nine months of Fiscal 2011 compared to the same period of 2010.

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

	Three Months Ended Dec. 31,		**Dollar**	
	2010	**2009**	**Change**	**% Change**
Costs related to:				
Transaction fees	$ 7,729	$ 10,012	$ (2,283)	(22.8)%
Sell-through fees	1,827	2,228	(401)	(18.0)%
Other	1,445	2,032	(587)	(28.9)%
	$ 11,001	$ 14,272	$ (3,271)	(22.9)%

	Nine Months Ended Dec. 31,		**Dollar**	
	2010	**2009**	**Change**	**% Change**
Costs related to:				
Transaction fees	$ 23,312	$ 26,934	$ (3,622)	(13.4)%
Sell-through fees	5,895	6,713	(818)	(12.2)%
Other	4,076	5,039	(963)	(19.1)%
	$ 33,283	$ 38,686	$ (5,403)	(14.0)%

The decreases in cost of sales within the Home Entertainment Division were primarily related to the decreases in revenues discussed above.

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

Costs related to:	Three Months Ended Dec. 31, 2010	2009	Dollar Change	% Change
Amortization of internally developed software	$ 438	$ 343	$ 95	27.7%
Call center operation	1,144	607	537	88.5%
Obtaining, cleansing and processing data	1,466	1,248	218	17.5%
Other	40	39	1	2.6%
	$ 3,088	$ 2,237	$ 851	38.0%

Costs related to:	Nine Months Ended Dec. 31, 2010	2009	Dollar Change	% Change
Amortization of internally developed software	$ 1,195	$ 942	$ 253	26.9%
Call center operation	3,380	1,789	1,591	88.9%
Obtaining, cleansing and processing data	3,105	2,117	988	46.7%
Other	121	114	7	6.1%
	$ 7,801	$ 4,962	$ 2,839	57.2%

The increases in costs of sales within the AMI Division resulted primarily from increased costs related to our call center operations and obtaining, cleansing and processing data. The increased costs in our call center operation were primarily due to the addition of the EDI Business. The increases in costs related to obtaining, cleansing and processing data were primarily due to growth in our service offerings and revenue sharing arrangements in place with data providers.

Gross margins as a percentage of revenues are as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2010	2009	2010	2009
Home Entertainment Division	27.6%	24.1%	29.7%	27.2%
AMI Division	63.8%	48.0%	68.9%	61.5%

The improvements in gross margins in the Home Entertainment Division in both periods were primarily due to the timing and quantity of Units released in the current periods compared to the prior year periods.

In the AMI Division, margins have improved in both periods due to the growth in revenues. These improvements were partially offset by a $0.7 million charge in the third quarter of Fiscal 2011 related to an amendment to an agreement with one of our data partners. This amendment allows us to integrate segmentation data, thus providing more robust information reporting to our clients and furthers our efforts towards moving our products from data to knowledge-based products and services. Additionally, the agreement was converted from a variable agreement based on revenues to a fixed-fee arrangement. We do not expect this change to materially affect our margins over the long term.

Selling and Administrative

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

Selling and administrative expenses increased $3.7 million, or 47.4%, to $11.5 million in the third quarter of Fiscal 2011 compared to $7.8 million in the third quarter of Fiscal 2010 and increased $10.1 million, or 44.3%, to $32.8 million in the nine-month period ended December 31, 2010 compared to $22.7 million in the same period of the prior fiscal year.

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The increases in selling and administrative expenses in the three and nine-month periods ended December 31, 2010 compared to the same periods of the prior fiscal year were primarily due to a $1.5 million and a $4.2 million increase, respectively, in stock-based compensation and a $1.5 million and a $4.6 million increase, respectively, related to costs associated with the EDI Business. We also incurred costs associated with the acquisitions of Ciné Chiffres and Media Salvation, expanding our office locations and organization changes, primarily related to growth in our AMI Division.

Other Income

Other income of $0.1 million in the nine-month period ended December 31, 2010 represented a gain on the liquidation of a long-term, cost-based investment.

Income Taxes

Our effective tax rate, which is a benefit of 101.7% in the first nine months of Fiscal 2011, was positively impacted by federal and state research and experimentation credits, earnings on marketable securities that are exempt from federal income taxes and the tax impact of income in foreign locations.

Our effective tax rate of a benefit of 20.3% in the first nine-months of Fiscal 2010 was positively impacted by federal and state research and experimentation credits, earnings on marketable securities that are exempt from federal income taxation, and a tax benefit of $0.2 million relating to a reduction in our tax contingencies due to a lapse of the applicable statute of limitations on tax positions taken in prior fiscal years.

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 $15.0 million line of credit. Based on our current financial projections and projected cash needs, we believe that our available sources of liquidity will be sufficient to fund our current operations, the continued current development of our business information services and other cash requirements through at least December 31, 2011.

Cash and cash equivalents and marketable securities increased $6.1 million to $26.0 million at December 31, 2010. This increase resulted primarily from $7.3 million provided by operating activities, $1.1 million provided from the issuance of our common stock from the exercise of stock options and $1.8 million provided from the excess tax benefits related to stock-based compensation. These factors were partially offset by $2.6 million used for the purchase of equipment and capitalized IT costs and $1.7 million used for an acquisition.

Accounts and notes receivable, net of allowances, decreased $4.0 million to $15.9 million at December 31, 2010, primarily due to lower Home Entertainment Division revenues and collections of EDI Business accounts receivable acquired with the acquisition.

During the first three quarters of Fiscal 2011, we spent $2.6 million on property and equipment, including $2.2 million for the capitalization of internally developed software for our business information service offerings. We anticipate spending a total of approximately $5.0 million on property and equipment in Fiscal 2011, including approximately $3.5 million for the capitalization of internally developed software, primarily for our business information service offerings as we expand our Multi-Screen Essentials lines of business. We expect the remaining capital expenditures in Fiscal 2011 will be primarily for computer equipment.

Accrued compensation increased $3.1 million to $5.7 million at December 31, 2010, primarily due to a $2.5 million increase in accrued stock-based compensation that will be settled in cash related to an agreement with a non-employee and a $0.7 million increase in our bonus accrual based on Fiscal 2011 financial results.

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Deferred revenue of $1.3 million at December 31, 2010 included amounts related to annual subscriptions for our services.

Deferred rent, current and long-term, of $1.0 million at December 31, 2010 represents amounts received for qualified renovations on our corporate headquarters and free rent for the first three months of the lease term. The deferred rent is being amortized against rent expense over the term of the related lease at the rate of approximately $24,000 per quarter.

In January 2006, our board of directors adopted a share repurchase program authorizing the purchase of up to 1.0 million shares of our common stock. Through December 31, 2010, a total of 723,367 shares had been repurchased under this plan at an average price of $10.78 per share and 276,633 shares remained available for purchase. To date, no shares have been repurchased in Fiscal 2011. This plan does not have an expiration date. We do not have an established plan for specific repurchases of shares in any period.

We currently have a revolving line of credit for $15.0 million, with a maturity of December 1, 2011. Interest on the line of credit is LIBOR plus 1.5 percent. The credit line is secured by substantially all of our assets and includes certain financial covenants. One of those covenants relates to reporting pretax profit of not less than $1 for each fiscal quarter end. Wells Fargo Bank N.A. waived this requirement for the quarter ended December 31, 2010. At December 31, 2010, we had no outstanding borrowings under this agreement.

Critical Accounting Policies and Estimates

Revenue Recognition

We recognize revenue when all of the following conditions are met:

- Persuasive evidence of an arrangement exists;
- The products or services have been delivered; for Units released within our Home Entertainment Division, we believe this condition is met when the film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and unconditional delivery;
- The license period has begun (which is referred to as the street date for a product);
- The arrangement fee is fixed or determinable; and
- Collection of the arrangement fee is reasonably assured based on our collection history.

Within our Home Entertainment Division, our agreements generally provide for an initial order processing fee and continuing transaction fees based on a percentage of rental revenues earned by the retailers upon renting the Units to their customers. Initial order processing fees cover the direct costs of accessing Units from Program Suppliers and handling, packaging and shipping of the Units to the retailer. Once the Units are shipped, we have no further obligation to provide services to the retailer.

We recognize order processing fees as revenue on the street date and recognize transaction fees when the Units are rented to the consumers, provided all other revenue recognition criteria have been met. Certain arrangements include guaranteed minimum revenues from our customers as well as our suppliers, vary by studio and relate to single films, typically major motion picture releases. These guarantees are contractually fixed on the street date and nonrefundable. We follow Accounting Standards Codification 926-605-25-19, which applies to the Entertainment-Films industry, and requires that the entire amount of these minimum guarantees be recognized as revenue, along with the corresponding cost, on the street date, provided all other revenue recognition criteria are met.

During the fourth quarter of Fiscal 2008, we entered into a long-term agreement with a customer/supplier relating to our Essentials line of business, in which we developed reporting tools specifically relating to their unique business requirements. We recognized revenue applying the completed-contract method and, accordingly, we recognized the revenue and related costs when the development project was completed during the second quarter of Fiscal 2010.

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We recognize other services revenue, including DRS revenue in our Home Entertainment Division, and business information services revenue in our AMI Division, ratably over the period of service.

We reaffirm the remaining critical accounting policies and estimates as reported in our Fiscal 2010 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on June 14, 2010.

New Accounting Guidance

See Note 13 of Notes to Condensed Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no material changes in our reported market risks since the filing of our Fiscal 2010 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on June 14, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (Exchange Act). Based on that evaluation our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended March 31, 2010 includes a detailed discussion of our risk factors. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K. Accordingly, the information in this Form 10-Q should be read in conjunction with the risk factors and information disclosed in our Fiscal 2010 Form 10-K, which was filed with the Securities and Exchange Commission on June 14, 2010.

ITEM 5. OTHER INFORMATION

A description of our capital stock is attached as Exhibit 99.1 to this Form 10-Q and updates the description of capital stock contained in our Registration Statement on Form 8-A filed on November 14, 1986, as supplemented by the description set forth in Exhibit 99.1 to our current report on Form 8-K filed on May 18, 2005.

ITEM 6. EXHIBITS

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

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
99.1	Description of Rentrak Corporation Capital Stock.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 9, 2011	RENTRAK CORPORATION
	By: /s/ David I. Chemerow
	David I. Chemerow
	Chief Operating Officer and Chief Financial Officer

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