RENTRAK CORP
Form 10-K
July 14, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

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

For the Fiscal Year Ended: March 31, 2004

OR

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

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**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $0.001 par value**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No ý

The aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the last sales price ($6.99) as reported by the Nasdaq National Market System, as of the last business day of the Registrant's most recently completed second fiscal quarter (September 30, 2003), was $64,623,214.

The number of shares outstanding of the Registrant's Common Stock as of June 25, 2004 was 9,802,655 shares.

Documents Incorporated by Reference

The Registrant has incorporated into Part III of Form 10-K, by reference, portions of its Proxy Statement for its 2004 Annual Meeting of Shareholders.

RENTRAK CORPORATION
2004 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Where You Can Find More Information

We file annual, quarterly and other reports, proxy statements and other information with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 as amended ("Exchange Act"). You can inspect and copy our reports, proxy statements, and other information filed with the SEC at the offices of the SEC's Public Reference Room located at 450 Fifth St., NW, Room 1024, Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Rooms. The SEC also maintains an Internet website at http://www.sec.gov/ where you can obtain most of our SEC filings. We also make available, free of charge on our website at www.rentrak.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed electronically with the SEC. You can also obtain copies of these reports by contacting Investor Relations at (503) 284-7581.

Overview

Our primary business continues to be the collection, processing, analysis and presentation of rental and sales information regarding videocassettes ("Cassettes"), digital videodiscs ("DVDs"), and Video Games (collectively "Units") leased/licensed to home video specialty stores and other retailers by way of our Pay Per Transaction system (the "PPT System"). Under our PPT System, home video specialty stores and other retailers that rent Units to consumers ("Retailers"), including grocery stores and convenience stores, lease Units and other media from Rentrak for a low initial fee and share a portion of each retail rental transaction with us. We included Video Games as part of the PPT system in fiscal 2003. Our PPT System generated 84%, 78% and 73% of total revenues in fiscal years 2004, 2003 and 2002, respectively.

We also provide direct revenue sharing ("DRS") services to various suppliers. The DRS services collect, track, audit and report the results to our suppliers under established agreements on a fee for service basis. In addition, our Essentials software and services, which we began offering in the fourth quarter of fiscal 2003, provide unique data collection, management, analysis and reporting functions, resulting in business intelligence information valuable to our clients.

During the fourth quarter of fiscal 2003, we decided to pursue a plan to sell or dispose of substantially all the assets of our subsidiary 3PF.COM, Inc. ("3PF"), which provided order processing, inventory management and fulfillment services to Rentrak and third parties. We sold substantially all the assets of 3PF's Wilmington, Ohio operations in July 2003. See Note 5 of Notes to Consolidated Financial Statements.

Restatement

Our fiscal 2003 and 2002 financial statements have been restated as discussed further in Item 7.

Pay-Per-Transaction System

We distribute Units principally to home video specialty stores ("Retailers") through our PPT System. The PPT System enables Retailers to obtain Units at a significantly lower initial cost than if they purchased the Units from traditional video distributors.

After the Retailer is approved for participation in the PPT System, Units are leased to the Retailer for a low initial fee (the "Order Processing Fee") plus a percentage of revenues generated by the Retailer from rentals to consumers (the "Transaction Fee"). We retain a portion of each Order Processing Fee and Transaction Fee and remit the remainder to the appropriate motion picture studios or other licensee or owner of the rights to certain video programming, or video game publishers, ("Program Suppliers") that hold the distribution rights to the Units. Due to the lower cost of "bringing Units in the door," Retailers generally obtain a greater number of Units under the PPT System than the traditional distribution method. The intended benefit to the Retailer is a higher volume of rental transactions, as well as a reduction in capital cost and risk. The intended benefit to the Program Supplier is an increase in the total number of Units shipped, resulting in increased revenues and opportunity for profit. The intended benefit to the consumer is the potential of finding more copies of certain newly released hit titles and a greater selection of other titles at Retailers participating in the PPT System ("Participating Retailers").

Direct Revenue Sharing

Our DRS services consist of data collection, tracking, auditing and reporting of revenue sharing rental and sales transactions of large retail chain video store customers that rent Units and engage in revenue sharing arrangements directly with the Program Suppliers. The DRS services are offered to Program Suppliers who participate in our PPT System. We utilize our internally developed computer software and are compensated on a fee for service basis.

Business Intelligence Services

In the fourth quarter of fiscal 2003, we began offering business intelligence ("BI") services, by taking advantage of the capabilities we built through our PPT System in the entertainment industry. Our suite of BI software and services consist of Box Office Essentials , VideoGame Essentials , Retail Essentials , VOD Essentials , Business Intelligence Essentials and Supply Chain Essentials (collectively, the "Essentials software and services") for the entertainment industry and beyond. The Essentials software and services provides custom data collection, management, analysis and reporting, resulting in business intelligence information valuable to our customers.

Marketing and Relationships with Program Suppliers

We currently market our PPT System throughout the United States and Canada. We offer substantially all of the titles of a number of non-Video Game Program Suppliers, including Buena Vista Pictures Distribution, Inc., a subsidiary of The Walt Disney Company, Paramount Home Video, Inc., Universal Studios Home Video, Inc., Twentieth Century Fox Home Entertainment (formerly Fox Video), a subsidiary of Twentieth Century Fox Film Corporation, Warner Brothers, including Warner Home Video, HBO Video, New Line Home Entertainment, TNT, and Lightyear Entertainment and MGM Home Entertainment, a subsidiary of Metro Goldman Mayer, Inc. Our arrangements with all of our Program Suppliers are of varying duration, scope and formality. In some cases, we have obtained Units pursuant to contracts or arrangements with Program Suppliers on a title-by-title basis and in other cases the contracts or arrangements provide that all titles released for distribution by such Program Supplier will be provided to us for the PPT System. Many of our agreements with Program Suppliers, including all major Program Suppliers, may be terminated upon relatively short notice. Therefore, there is no assurance that any of the Program Suppliers will continue to distribute Units through the PPT System, continue to have available for distribution titles which we can distribute on a profitable basis, or continue to remain in business. Even if titles are otherwise available from Program Suppliers, there is no assurance that they will be made available on terms acceptable to us. During the last three years, we have not experienced any material difficulty acquiring suitable Units for our markets on acceptable terms and conditions from Program Suppliers. We have one Program Supplier that supplied product that generated 22%, one that generated 15%, one that generated 13% and one that generated 12% of our revenues for the year ended March 31, 2004. During fiscal 2003, we had one Program Supplier that supplied product that generated 16% of our total revenues, two that generated 15% and a fourth that generated 11%. There were no other Program Suppliers who provided product that generated 10% or more of our total revenues for the year ended March 31, 2004. Although we do not believe that our relationships with these significant Program Suppliers will be terminated in the near term, a loss of any of these Program Suppliers could have a material adverse effect on our results of operations.

Certain Program Suppliers have requested, and we have provided, financial or performance commitments, including advances or guarantees, as a condition of obtaining certain titles. We determine whether to provide such commitments on a case-by-case basis, depending upon the Program Supplier's success with such titles prior to home video distribution and our assessment of expected success in home rental distribution. We currently have such commitments with three Program Suppliers for movies and three Program Suppliers for Video Games.

Significant Customers

We had one PPT customer that accounted for 17% of our total revenue in fiscal 2004. The agreement with this PPT customer expires in September 2004. One fulfillment customer accounted for 14% and 11%, respectively, of our total revenue in fiscal 2003 and 2002. The agreement with this fulfillment customer expired July 31, 2003. There were no other customers that accounted for 10% or more of our total revenue in fiscal 2004, 2003 and 2002.

Distribution of Cassettes, DVDs, and Video Games

Our proprietary Rentrak Profit Maker Software (the "RPM Software") allows Participating Retailers to order Units through their Point of Sale ("POS") system software and provides the Participating Retailers with substantial information regarding all offered titles. Ordering occurs via a networked computer interface. To further assist the Participating Retailers in ordering, we also produce a monthly product catalog called "Ontrak."

To be competitive, Participating Retailers must be able to rent their Units on the "street date" announced by the Program Supplier for the title. Effective April 1, 2004, we have contracted with a third party fulfillment provider to distribute our Units via overnight air courier to assure delivery to Participating Retailers on the street date. The handling and freight costs of such distribution comprise a portion of our cost of sales.

Computer Operations

To participate in our PPT System, Participating Retailers must install Rentrak-approved computer software and hardware to process all of their rental and sale transactions. Our RPM Software resides on the Participating Retailer's POS computer system and transmits a record of PPT transactions to us over a telecommunications network. The RPM Software also assists the Participating Retailer in ordering newly released titles and in managing its inventory of Units.

Our information system processes these transactions and prepares reports for Program Suppliers and Participating Retailers. In addition, it determines variations from statistical norms for potential audit action. Our information system also transmits information on new titles and confirms orders made to the RPM Software at the Participating Retailer location.

Auditing of Participating Retailers

From time to time, we audit Participating Retailers in order to verify that they are reporting all rentals and sales of Units on a consistent, accurate and timely basis. Several different types of exception reports are produced weekly. These reports are designed to identify any Participating Retailers whose PPT business activity varies from our statistical norms. Depending upon the results of our analysis of the reports, we may conduct an in-store audit. Audits may be performed with or without notice and any refusal to allow such an audit can be cause for immediate termination from the PPT

System. If audit violations are found, the Participating Retailer is subject to fines, audit fees, immediate removal from the PPT System and/or repossession of all leased Units.

Seasonality

We believe that the home video industry is highly seasonal because Program Suppliers tend to introduce hit titles for movies at two periods of the year, early summer and Christmas. Since the release of movies to home video usually follows the theatrical release by approximately six months (although significant variations occur on certain titles), the seasonal peaks of movies for home video also generally occur in early summer and at Christmas. We believe our volume of rental transactions and resulting revenues and earnings reflect, in part, this seasonal pattern. However, changes in Program Suppliers' titles available to Participating Retailers and us may obscure any seasonal effect.

Competition

The Cassette, DVD, and Video Game distribution business is a highly competitive industry that is rapidly changing. The traditional method of distributing Units to Retailers is through purchase transactions; *i.e.*, a Retailer purchases Units from a distributor and then offers the Units for rental or sale to the general public. As described in greater detail above (see "Pay-Per-Transaction System"), our PPT System offers Participating Retailers an alternative method of obtaining Units. Accordingly, we face intense competition from all of the traditional distributors, including Ingram Entertainment, Inc., Video Product Distributors, Inc., and Video One Canada, Ltd. These and other traditional distributors have extensive distribution networks, long-standing relationships with Program Suppliers and Retailers, and, in some cases, significantly greater financial resources than us.

In the past, certain traditional distributors offered Units to Retailers on a revenue sharing basis. To our knowledge, only one does so today on a very limited basis. This distributor executed a licensing agreement with Supercomm, Inc. ("Supercomm"), now a wholly-owned subsidiary of Columbia TriStar Home Entertainment ("Columbia"), to market product on revenue sharing terms. Domestically, Supercomm also processes data for Columbia's direct relationships with Blockbuster Video and several other Retailers.

We also face direct competition from the Program Suppliers. Several major Program Suppliers offer Retailers discounted pricing if the Retailers substantially increase the quantity of Units purchased. Also, some major Program Suppliers have offered Units to Retailers on a lease basis. In addition, all major Program Suppliers sell Units directly to major Retailers including Blockbuster, the world's largest chain of home video specialty stores. We believe most of the major Program Suppliers have direct revenue sharing arrangements with Blockbuster and Hollywood Entertainment, the world's second largest chain of home video specialty stores. We also believe that certain Program Suppliers have executed direct revenue sharing agreements with several other large Retailers. We do not believe that the Program Suppliers have executed direct revenue sharing agreements with other smaller Retailers, but there can be no assurance that they will not do so in the future.

The Program Suppliers also compete with us by releasing certain Unit titles on a "sell-through" basis; they bypass the traditional rental period by selling the Units directly to consumers at a price of approximately $9.95 to $19.95 per Unit. To date, such "sell-through" distribution has generally been limited to certain newly released hit titles with wide general family appeal. However, because our PPT business is partially dependent upon the existence of a rental period, a shift toward such "sell-through" distribution, particularly with respect to popular titles, could have a material adverse effect on our results of operations and financial condition.

We also compete with businesses that use alternative distribution methods to provide video entertainment directly to consumers, such as the following: (1) direct broadcast satellite transmission systems; (2) traditional cable television systems; (3) pay-per-view cable television systems; and

(4) delivery of programming via the Internet. Each of these distribution methods employs digital compression techniques to increase the number of channels available to consumers and, therefore, the number of movies that may be transmitted. Technological improvements in this distribution method, particularly "video-on-demand," may make this option more attractive to consumers and thereby materially diminish the demand for Unit rentals. Such a consequence could have a material adverse effect on our results of operations and financial condition.

Formovies.com

Formovies.com is a website designed by us and dedicated to assist consumers in finding a local video store where they can rent and/or purchase the video products they want. Consumers can find a particular movie of their choice by searching on various attributes of that title. Once found they can then determine the closest video store that carries that product.

Trademarks, Copyrights, and Proprietary Rights

We have registered our "RENTRAK," "PPT," "Pay Per Transaction," "Ontrak," "BudgetMaker," "DataTrak," "Prize Find," "BlowOut Video," "Fastrak," "GameTrak," "RPM," "Videolink+," "Unless You're Rich Enough Already," "Sportrak," "Movies For The Hungry Mind," "VidAlert," "Active Home Video," "Movie Wizard" and "Gotta Have It Guarantee" marks under federal trademark laws. We have applied and obtained registered status in several foreign countries for many of our trademarks. We have filed applications to register our various "Essentials" trademarks, some of which are completed and the others pending. We have filed patent applications for our Box Office Essentials and VOD Essentials software. We claim a copyright on our RPM Software and consider it to be proprietary. We have also filed notice and claim a copyright on our Essentials software. We believe that our intellectual property is important to our marketing efforts and the competitive value of our services and we intend to take appropriate action to halt any infringement or protect against improper usage.

Employees

As of March 31, 2004, including all subsidiaries, we employed 162 full-time employees and 30 part-time employees. We consider our relations with our employees to be good.

Financial Information About Industry Segments

See Note 18 of Notes to the Consolidated Financial Statements for information regarding our business segments.

ITEM 2. PROPERTIES

We maintain our headquarter offices in Portland, Oregon where we lease 48,800 square feet of office space. The lease began on January 1, 1997 and expires on December 31, 2006. We also maintain an office in Los Angeles, California where we lease 4,000 square feet of space utilized for our Box Office Essentials business. We anticipate that this space will be adequate for our business needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

We may from time to time be a party to legal proceedings and claims that arise in the ordinary course of our business. In the opinion of management, the amount of any ultimate liability with respect to these potential actions is not expected to materially affect our financial condition or results of operations. Other than as discussed below, we currently have no material outstanding litigation.

Vendor Dispute

In June 2003, we signed a definitive agreement to sell substantially all of the assets of 3PF at the Wilmington, Ohio operation, effective July 1, 2003. See Note 5 of Notes to Consolidated Financial Statements. In conjunction with the effective date of that asset sale agreement, we entered into a Fulfillment Agreement (the "Agreement") with this purchaser (the "Fulfillment Provider") for a nine-month term to provide us with fulfillment services previously provided by 3PF during the period we owned and operated it. After its inception, disagreement between the parties arose regarding the contractual provisions of the Agreement. As a result, we disputed certain charges for services and withheld payments accordingly. Additionally, the Fulfillment Provider has alleged that we violated the exclusivity provisions in the Agreement. The Fulfillment Provider has submitted, under the provisions of the Agreement, a demand for arbitration against us seeking damages of approximately $877,000. We have reviewed the Fulfillment Provider's demand for arbitration and believe there is no basis in fact, under the terms and conditions of the Agreement, for any of the claims made against us. We have retained legal counsel to vigorously defend us in this matter. In the opinion of management, the amount of any ultimate liability with respect to this action is not expected to materially affect our financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock, $.001 par value, is traded on the Nasdaq National Market, where its prices are quoted under the symbol "RENT." As of June 25, 2004 there were approximately 281 holders of record of our common stock. On June 25, 2004, the closing sales price of our common stock as quoted on the Nasdaq National Market was $9.25.

The following table sets forth the reported high and low sales prices of our common stock for each of the quarters in the last two fiscal years as regularly quoted on the Nasdaq National Market System:

Fiscal 2003	**High**	**Low**
Quarter 1	$ 7.20	$ 4.58
Quarter 2	5.03	3.27
Quarter 3	5.79	3.76
Quarter 4	6.00	4.31

Fiscal 2004	**High**	**Low**
Quarter 1	$ 7.49	$ 4.80
Quarter 2	7.25	6.30
Quarter 3	9.87	6.98
Quarter 4	10.25	8.76

Holders of our common stock are entitled to receive dividends if, as, and when declared by the Board of Directors out of funds legally available there for, subject to the dividend and liquidation rights of any preferred stock that may be issued.

No cash dividends have been paid or declared during the last five fiscal years. The present policy of the Board of Directors is to retain earnings to provide funds for operation and expansion of our business. We do not intend to pay cash dividends in the foreseeable future.

Information regarding securities authorized for issuance under equity compensation plans is included in Item 12.

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended March 31,				
	2004	2003	2002	2001	2000
		(restated)	(restated)	(restated)	(restated)
	(In Thousands Except Per Share Amounts)				
Statement of Operations Data(1)					
Revenues:					
Order processing fees	$ 7,741	$ 14,745	$ 16,893	$ 18,533	$ 22,331
Transaction fees	46,398	42,258	44,102	55,752	61,476
Sell-through fees	10,309	8,558	7,324	8,431	9,826
Communication fees	1,127	1,185	1,136	1,509	2,099
Fulfillment(2)	4,624	15,266	15,342	20,137	8,337
Other	7,933	3,872	11,224	3,668	3,624
Total revenues	78,132	85,884	96,021	108,030	107,693
Operating expenses:					
Cost of sales	60,090	71,347	71,913	85,993	87,157
Selling and administrative expense	16,357	14,434	17,266	31,002	25,360
Net gain from litigation settlements		(362)	(1,563)	(225)	(7,792)
Asset impairment		844	424		
Total operating expenses	76,447	86,263	88,040	116,770	104,725
Income (loss) from continuing operations	1,685	(379)	7,981	(8,740)	2,968
Other income (expense)	233	179	7,913	(2,149)	(1,389)
Income (loss) from continuing operations before income tax (provision) benefit and loss from discontinued operations	1,918	(200)	15,894	(10,889)	1,579
Income tax provision (benefit)	479	(56)	6,040	(4,057)	450
Income (loss) from continuing operations	1,439	(144)	9,854	(6,832)	1,129
Income (loss) from discontinued operations	(129)	(583)	(792)	(259)	2,581
Net income (loss)	$ 1,310	$ (727)	$ 9,062	$ (7,091)	$ 3,710
Earnings (loss) per share:					
Basic:					
Continuing operations	$ 0.15	$ (0.02)	$ 0.95	$ (0.57)	$ 0. 11
Discontinued operations	(0.01)	(0.06)	(0.08)	(0.02)	0.24
Net income (loss)	$ 0.14	$ (0.08)	$ 0.87	$ (0.59)	$ 0.35
Diluted:					

	Year Ended March 31,				
Continuing operations	$ 0.14	$ (0.02)	$ 0.93	$ (0.57)	$ 0.10
Discontinued operations	(0.01)	(0.06)	(0.07)	(0.02)	0.24
Net income (loss)	$ 0.13	$ (0.08)	$ 0.85	$ (0.59)	$ 0.34
Shares used to compute diluted EPS	10,119	9,641	10,613	11,985	10,759

	2004	2003	2002	2001	2000
Balance Sheet Data(1)					
Working capital	$ 14,633	$ 11,485	$ 12,515	$ 4,637	$ 9,645
Total assets	36,363	31,488	40,094	38,623	50,299
Long-term liabilities	235	668	496	1,175	
Stockholders' equity	18,796	16,047	18,116	12,158	18,365

(1) Fiscal years 2000, 2001, 2002 and 2003 have been restated for correction of certain errors. See Note 4 of Notes to Consolidated Financial Statements. In addition, certain expenses in fiscal 2003 and 2002 have been reclassified.

(2) We sold our fulfillment business effective July 2003. See Note 5 of Notes to Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

Certain information included in this Annual Report on Form 10-K (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 "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 Participating Retailer customer base and customers for our business intelligence software and services, the financial stability of the Participating Retailers and their performance of their obligations under the PPT System, non-renewal of our line of credit, business conditions and growth in the video industry and general economic conditions, both domestic and international; competitive factors, including increased competition, expansion of revenue sharing programs other than the PPT System by Program Suppliers, new technology and the continued availability of Units from Program Suppliers. This Annual Report on Form 10-K further describes some of these factors. (References to Notes are to Notes to Consolidated Financial Statements included in Item 8 of this report.)

Business Trends

Our financial results for fiscal 2004 have been, and we expect them to continue to be for fiscal 2005, affected by the changing dynamics in the home video and game rental market, as they impact our PPT business. We continue to experience the impact of the migration from higher historical rentals of Cassettes to greater rentals of DVDs by our Participating Retailers. We have successfully implemented new agreements with Program Suppliers to incorporate the availability of DVDs, and we continue our efforts in fiscal 2005 to secure more DVD agreements to address this impact. In addition, our PPT business continues to be affected by a shift to "output programs" under which the Program Supplier and we agree to a lower order processing and transaction fee in exchange for the Participating Retailers' commitment to order an increased number of Units of all the Program Supplier's titles. The result is an increased number of Units leased by the Participating Retailers, but a reduced amount of fees per Unit earned by the Program Supplier and us. These output programs are an economic response to the changing dynamics of the home video rental market, as a result of the migration from Cassette format to the DVD format. We expect the growth of these output programs to continue, and believe that they will be financially beneficial for the Participating Retailers, Program Suppliers and us.

Our base of Participating Retailers continues to be strong. We have one Participating Retailer that accounted for 17% of the PPT revenues in fiscal 2004. The agreement with this Participating Retailer is scheduled to expire in September 2004, with associated PPT revenues from that Participating Retailer's rentals expected to continue on a declining basis through the end of fiscal 2005. We are currently discussing with that Participating Retailer their interest in entering into a new agreement with us. We are also implementing other strategies for obtaining other new Participating Retailers and Program Suppliers in an effort to further stabilize and grow our overall PPT revenue and earnings streams.

We continue to be in good standing with all of our Program Suppliers and we make on-going efforts to enhance those business relationships through improvement of current services offered and the development of new service offerings. We are also continually seeking to develop business relationships with new Program Suppliers.

We are also allocating significant efforts towards our business intelligence service offerings, both those services that are currently operational as well as those that are in various stages of development.

Our suite of business intelligence software has been well received in the various targeted markets to date, as our offerings fit well with the needs identified by those market participants. We intend to continue to make the necessary increased investments in these new business intelligence services in the short-term, affecting our current earnings. We believe they will provide significant future revenue and earnings streams and ultimately be the cornerstone of our long-term success.

Sources of Revenue

Our sources of revenue include the following PPT revenue sharing fees in the Entertainment business segment: order processing fees generated when Cassettes, DVDs and video games ("Units") are ordered by and distributed to retailers; transaction fees generated when retailers rent Units to consumers; sell-through fees generated when retailers sell Units to consumers; communication fees when retailers' point-of-sale systems are connected to our information system; and buy out fees generated when retailers purchase Units at the end of the lease term. Entertainment business segment revenues also include direct revenue sharing fees from data tracking and reporting services provided to program suppliers ("DRS"), revenues from Box Office Essentials , Supply Chain Essentials , Business Intelligence Essentials , and Home Video Essentials , all part of our Essential business intelligence service offerings, as well as charges for Internet services provided by our subsidiary, formovies.com, Inc.

In addition, through July 31, 2003, revenue included the Fulfillment business segment representing charges to customers of our subsidiary 3PF.COM, Inc. ("3PF"), which provided order processing, fulfillment and inventory management services to Internet retailers and wholesalers and other businesses requiring just-in-time fulfillment. Effective July 1, 2003, we sold 3PF's operating assets at its Wilmington, Ohio facility to a third party.

Restatements

In May and June 2004, we discovered that we had misinterpreted and misapplied certain terms of some of our Program Supplier revenue sharing agreements. These misinterpretations and misapplications resulted in the miscalculation of Program Supplier liabilities and related cost of sales and, therefore, net income (loss). There were two general types of misinterpretations or misapplications: (i) over reporting cost of sales and related liabilities due to the misapplication of certain terms in our Program Supplier revenue sharing agreements in the amounts of $0.7 million and $0.8 million, respectively, in fiscal 2003 and 2002; and (ii) under reporting cost of sales and overstating assets and understating liabilities due to the misuse of contract information in recognizing our guarantees to one Program Supplier in the amounts of $0.9 million and $0.7 million, respectively, in fiscal 2003 and 2002. However, there was no effect on the accuracy of amounts we have periodically remitted to our Program Suppliers under the terms of the revenue sharing agreements or on our reported cash balances. Accordingly, correction of these errors did not result in any additional payments to any of these suppliers.

Also in June 2004, we discovered that we were not accounting for certain order processing fees received from our customers upon "street date," which is the date that they are able to rent the title pursuant to SOP 00-2. Our previous method had been to recognize revenue on the shipment date. This resulted in a restatement of revenue between periods.

In addition, in connection with the embezzlement of funds by an employee, as discussed in more detail below, we underreported our sales tax liability in fiscal 2003. We record our sales tax liabilities as an offset to revenue.

See Item 9A "Controls and Procedures" for a discussion of changes made to our internal controls and to our processes and procedures to help ensure against such restatements in the future.

The restatements did not affect cash flows from operations, investing activities or financing activities in any fiscal year. We also reclassified certain operating expense amounts to conform to the current fiscal year presentation. For details on the restatement of our first, second and third quarters of fiscal 2004, see "Quarterly Financial Data" in Item 8.

We have restated our fiscal years ended March 31, 2003 and 2002 and the related balance sheet accounts at March 31, 2003 as follows:

Year Ended March 31, 2003	Revenue	Cost of sales	Total operating expenses	Income tax expense (benefit)	Income (loss) from continuing operations	Net loss
	(In thousands)					
As previously reported	$ 86,220	$ 71,315	$ 86,231	$ 85	$ 84	$ (498)
Adjustment for misinterpretation and misapplication of contract terms		239	239	(91)	(148)	(148)
SOP 00-2 revenue recognition adjustment	(274)	(206)	(206)	(25)	(43)	(43)
Underreporting of sales tax	(62)			(24)	(38)	(38)
Rounding		(1)		(1)	1	
As restated	$ 85,884	$ 71,347	$ 86,264	$ (56)	$ (144)	$ (727)

After the above adjustments, our basic and diluted net loss per share for fiscal 2003 increased to $(0.08) per share compared to the previously reported basic and diluted net loss per share of $(0.05) as previously reported.

March 31, 2003	Accounts receivable	Advances to Program Suppliers	Current deferred tax assets	Total current assets	Total assets
	(In thousands)				
As previously reported	$ 9,706	$ 418	$ 2,797	$ 25,496	$ 30,726
Adjustment for misinterpretation and misapplication of contract terms					
Current period		(586)	91	(495)	(495)
Prior periods		1,999	(514)	1,485	1,485
SOP 00-2 revenue recognition adjustment					
Current period	(274)		25	(249)	(249)
Prior periods	(3)			(3)	(3)
Underreporting of sales tax, current period			24	24	24
As restated	$ 9,429	$ 1,831	$ 2,423	$ 26,258	$ 31,488

	Accounts payable	Accrued liabilities	Total current liabilities	Accumulated deficits	Total stockholders' equity	Total liabilities and stockholders' equity
	(In thousands)					
As previously reported	$ 12,711	$ 1,144	$ 14,621	$ (24,409)	$ 15,437	$ 30,726
Adjustment for misinterpretation and misapplication of contract terms:						
Current period	(347)		(347)	(148)	(148)	(495)
Prior periods	645		645	840	840	1,485
SOP 00-2 revenue recognition adjustment:						
Current period	(206)		(206)	(43)	(43)	(249)
Prior periods	(2)		(2)	(1)	(1)	(3)
Underreporting of sales tax, current period		62	62	(38)	(38)	24
As restated	$ 12,801	$ 1,206	$ 14,773	$ (23,799)	$ 16,047	$ 31,488

Year Ended March 31, 2002	Revenue	Cost of sales	Total operating expenses	Income tax expense	Income (loss) from continuing operations	Net income
	(In thousands)					
As previously reported	$ 95,994	$ 71,994	$ 88,122	$ 5,998	$ 9,787	$ 8,994
Adjustment for misinterpretation and misapplication of contract terms		(102)	(102)	39	63	63
SOP 00-2 revenue recognition adjustment	27	21	21	2	4	4
Rounding			(1)	1		1
As restated	$ 96,021	$ 71,913	$ 88,040	$ 6,040	$ 9,854	$ 9,062

After the above adjustments, our basic net income per share for fiscal 2002 increased to $0.87 per share compared to the $0.86 per share previously reported and our diluted net income per share remained unchanged at $0.85 per share.

Sale of 3PF.COM

In June 2003, we signed a definitive agreement to sell substantially all of the assets of 3PF at the Wilmington, Ohio operation for $800,000. The agreement covered all equipment and leasehold improvements at 3PF's leased distribution facility in Wilmington, Ohio, as well as a portion of its working capital. As part of the agreement, 3PF, as lessee, and Rentrak, as guarantor, were released from the lease. The cash purchase price of $800,000 is approximately equal to the net book value of the assets sold. We completed this asset sale transaction effective July 1, 2003, and received the cash purchase price in full. The operations of 3PF have not been reported as discontinued operations in accordance with FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," because cash flows related to our fulfillment activities have not been completely eliminated.

During the sale negotiations, we received notification from 3PF's largest customer, serviced exclusively from the leased distribution facility in Columbus, Ohio, that it did not intend to renew its fulfillment service contract upon the scheduled expiration at July 31, 2003. The Columbus, Ohio distribution facility was used exclusively to service this customer. Due to the timing of the notification, we were not able to include the Columbus, Ohio distribution facility lease in the asset sale transaction. We completed the termination of the lease obligation for the Columbus, Ohio distribution facility, effective December 1, 2003, for a cost of $650,000, which is included as a component of cost of sales in

our statement of operations. This lease termination included the assignment of the sublease 3PF had in place with its former largest customer for approximately 194,000 square feet of this facility.

Investigation and Recovery Efforts Regarding Misappropriated Funds

In March 2004, we learned that an employee may have engaged in fraudulent activity and we hired an outside firm to investigate the matter. The employee admitted to embezzling funds from us. It was determined that the employee had been embezzling funds from us since 1998 through 2003, in an amount totaling approximately $570,000. The investigation of this matter is complete. Other than $62,000 in underreported sales taxes as discussed above, the embezzlement funds were materially expensed in the year such funds were embezzled and, therefore, had no other effect on the restatement of any financial results in fiscal 2004 or prior years. We are in the process of securing certain assets belonging to this employee, which, in conjunction with insurance proceeds, should provide us with recoveries of approximately $300,000, which will be recorded as recoveries in future periods when they are received. We have incurred a total of approximately $120,000 to $150,000 of legal and other professional fees related to this matter through June 2004, and expect to incur an additional amount of approximately $5,000 to $10,000 before the matter is resolved. We have updated our system of internal controls, as described more fully in Item 9A, in order to prevent such occurrences in the future.

Results of Operations

	Year Ended March 31,(1)					
	2004		2003 (restated)(2)		2002 (restated)(2)	
	Dollars	% of revenues	Dollars	% of revenues	Dollars	% of revenues
	(Dollars in thousands)					
Revenues:						
Order processing fees	$ 7,741	9.9%	$ 14,745	17.2%	$ 16,893	17.6%
Transaction fees	46,398	59.4	42,258	49.2	44,102	45.9
Sell-through fees	10,309	13.2	8,558	10.0	7,324	7.6
Communication fees	1,127	1.4	1,185	1.4	1,136	1.2
Fulfillment	4,624	5.9	15,266	17.8	15,342	16.0
Other	7,933	10.2	3,872	4.5	11,224	11.7
	78,132	100.0	85,884	100.0	96,021	100.0
Operating expenses:						
Cost of sales	60,090	76.9	71,347	83.1	71,913	74.9
Selling and administrative	16,357	20.9	14,434	16.8	17,266	18.0
Net gain on litigation settlement			(362)	(0.4)	(1,563)	(1.6)
Asset impairment			844	1.0	424	0.4
	76,447	97.8	86,263	100.4	88,040	91.7
Income (loss) from operations	1,685	2.2	(379)	(0.4)	7,981	8.3
Other income (expense):						
Interest income	244	0.3	204	0.2	195	0.2
Interest expense	(11)		(25)		(18)	
Loss on investments					(231)	(0.2)
Gain on Rentrak Japan transaction					7,967	8.3
	233	0.3	179	0.2	7,913	8.2
Income (loss) from continuing operations before income tax provision (benefit) and loss from discontinued operations	1,918	2.5	(200)	(0.2)	15,894	16.6
Income tax provision (benefit)	479	0.6	(56)		6,040	6.3
Income (loss) from continuing operations before loss from discontinued operations	1,439	1.8	(144)	(0.2)	9,854	10.3
Loss from discontinued operations, net of tax	(129)	(0.2)	(583)	(0.7)	(792)	(0.8)
Net income (loss)	$ 1,310	1.7%	$ (727)	(0.9)%	$ 9,062	9.4%

(1) Percentages may not add due to rounding.

(2) Fiscal 2003 and 2002 have been restated for certain errors. See Note 4 of Notes to Consolidated Financial Statements. In addition, certain expenses were reclassified from selling and administrative to cost of sales in fiscal 2003 and 2002.

Revenue

Revenue decreased $7.8 million, or 9.1%, to $78.1 million in fiscal 2004 compared to $85.9 million in fiscal 2003, and decreased $10.1 million, or 10.5%, in fiscal 2003 compared to $96.0 million in fiscal 2002. The decrease in revenue in fiscal 2004 compared to fiscal 2003 is primarily due to a decrease in fulfillment (3PF) revenue and order processing fees. These decreases were partially offset by an increase in revenues from transaction fees and from DRS and our Essential business service offerings, which are a component of other revenue. The decrease in fiscal 2003 compared to fiscal 2002 is primarily due to the fact that, in fiscal 2002, we earned royalties and other revenues from Rentrak Japan totaling $6.4 million, which are included as a component of other revenue. Our arrangement with Rentrak Japan ended in fiscal 2002.

Order processing fees decreased $7.0 million in fiscal 2004 compared to fiscal 2003 due to PPT "output programs" and other PPT programs under which we agreed with the program supplier to charge a lower order processing and transaction fee in exchange for the Participating Retailers' commitment to order an increased total number of Units of all the Program Suppliers' titles. These programs began in August 1998 and were a response to the shift from the VHS cassette format to the DVD format. These output programs, along with a new combined VHS/DVD revenue sharing program with a new major supplier, contributed to an 89% increase in total Units shipped during fiscal 2004 compared to fiscal 2003.

The decrease in order processing fees was offset in part by a $4.1 million, or 9.8%, increase in transaction fees and a $1.8 million, or 20.5%, increase in sell-through fees. The increase in transaction fees is primarily due to the increased number of Units ordered by our Participating Retailers from our output programs that were rented to their customers. The increase in sell-through fees is primarily due to the new combined VHS/DVD revenue sharing program noted above. We expect our sell-through revenue increases to continue as the result of changed terms and conditions in our new product programs.

Fulfillment revenues decreased $10.6 million, or 69.7%, to $4.6 million during fiscal 2004 compared to $15.3 million during fiscal 2003, due to ceasing 3PF operations as of July 31, 2003 as discussed above.

Increases in other revenue in fiscal 2004 compared to fiscal 2003 included an increase of approximately $1.3 million in DRS revenues to $4.3 million in fiscal 2004 and an increase of $2.9 million in revenues from our Essential business intelligence services offerings to $3.2 million in fiscal 2004. In fiscal 2003, there were minimal revenues generated from our Essential business intelligence services as they began in the fourth quarter of fiscal 2003. The $7.4 million decrease in fiscal 2003 compared to fiscal 2002, primarily relates to $6.4 million of royalties received related to Rentrak Japan in fiscal 2002 in connection with its sale, compared to none in fiscal 2003, and a $0.8 million decrease in DRS revenues.

Order processing-fee revenue decreased to $14.7 million, a decrease of $2.1 million, or 12.4%, in fiscal 2003 from $16.9 million in fiscal 2002 and transaction-fee revenue decreased to $42.3 million, a decrease of $1.8 million, or 4.2%, from $44.1 million in the same periods. These decreases resulted primarily from the output and other PPT programs discussed above. These decreases were partially offset by an increase in sell-through revenue to $8.6 million in fiscal 2003 compared to $7.3 million in fiscal 2002, an increase of $1.2 million, or 16.8%.

Cost of Sales

Cost of sales consists of order processing costs, transaction costs, sell-through costs and handling and freight costs, and represents the direct costs to produce revenues. Order processing costs, transaction costs and sell through costs represent the amounts due 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.

Cost of sales decreased $11.3 million, or 15.8%, to $60.1 million in fiscal 2004 compared to $71.3 million in fiscal 2003 and decreased $0.6 million, or 0.8%, in fiscal 2003 compared to

$71.9 million in fiscal 2002. Cost of sales as a percentage of revenue was 76.9% in fiscal 2004 compared to 83.1% in fiscal 2003 and 74.9% in fiscal 2002.

A majority of the decrease in cost of sales in fiscal 2004 compared to fiscal 2003 was due to ceasing operations of 3PF in July 2003. In addition, approximately $0.9 million of the total cost of sales decrease is attributable to the overall $1.2 million decrease in PPT revenues. Cost of sales in fiscal 2004 includes a $650,000 charge related to costs of terminating 3PF's Columbus, Ohio, facility lease.

The decrease in cost of sales as a percentage of revenue in fiscal 2004 compared to fiscal 2003 is due to approximately $3.2 million in revenues from our Essential business service offerings in fiscal 2004, with $0.8 million of related cost of sales, compared to $0.3 million of revenue and $0.3 million of costs from these offerings in fiscal 2003. In addition, the decrease is due to the receipt of $0.8 million of discretionary rebates from one of our Program Suppliers during fiscal 2004, related to guarantee shortages resulting from under-performance of certain titles. We received $0.2 million of such rebates during fiscal 2003. These decreases were partially offset by the $650,000 charge related to 3PF discussed above.

The decrease in cost of sales in fiscal 2003 compared to fiscal 2002 is primarily due to the decrease in revenue as discussed above. The increase in cost of sales as a percentage of revenue in fiscal 2003 compared to fiscal 2002 is primarily due to the lack of royalty fees related to Rentrak Japan in fiscal 2003, compared to $6.4 million of such royalties in fiscal 2002, and a $295,000 increase in warrant amortization. We expensed the remaining unamortized value of warrants previously issued to a customer in conjunction with a service agreement as of March 31, 2003 based on the expectation that the customer would not be utilizing our services in future periods.

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 $1.9 million, or 13.3%, to $16.4 million in fiscal 2004 compared to $14.4 million in fiscal 2003, and decreased $2.8 million, or 16.4%, in fiscal 2003 compared to $17.3 million in fiscal 2002.

The increase in selling and administrative expenses in fiscal 2004 compared to fiscal 2003 is primarily due to an increase of approximately $1.4 million related to the continued investment toward the development and operating growth in our Essential business service offerings noted above. In addition, we had a $1.0 million decrease in advertising credits received from our Program Suppliers in fiscal 2004 compared to fiscal 2003 and our bad debt expense increased $0.7 million in the same period due to fewer charge-backs to our Program Suppliers under our current contractual arrangements. These increases were partially offset by an approximately $1.5 million decrease attributable to ceasing 3PF's operations July 31, 2003.

The decrease in fiscal 2003 compared to fiscal 2002 was primarily attributable to a $1.7 million decrease in compensation, advertising, and travel and entertainment expenses related to our 3PF business, as we continued to adjust our overhead infrastructure to better match the related revenues. In addition, in fiscal 2003 compared to fiscal 2002, we had a $0.5 million increase in advertising credits, a $0.2 million increase in bad debt charge-backs to our Program Suppliers and a $0.4 million decrease in other miscellaneous costs.

Net Gain on Litigation Settlement

The net gain on litigation settlement of $362,000 in fiscal 2003 relates to an amount that Hollywood Entertainment, a former customer, agreed to pay us in order to resolve all outstanding issues. The net gain on litigation settlement of $1.6 million in fiscal 2002 relates to a settlement with Hollywood Entertainment for breach of a fulfillment contract.

Asset Impairment

In 2003, we determined that it was unlikely that 3PF would achieve its business plans and we initiated a plan to sell the assets of 3PF. Prior to March 31, 2003, it was determined that, more likely than not, substantially all of 3PF's assets would be sold or otherwise disposed of. As a result of this determination, during the quarter ended March 31, 2003, we assessed the current and historical operating and cash flow losses, prospects for growth in revenues and other alternatives for improving the operating results of 3PF.

We then performed an assessment of the fair value of the 3PF assets under the guidelines of SFAS 144, "Accounting for the Impairment of Long-Lived Assets." This assessment resulted in 3PF recognizing an asset impairment charge during the three-month period ended March 31, 2003 in the amount of $844,041 for the write down of its assets to estimated fair market value of approximately $800,000.

Other Income (Expense)

Interest income of $244,000 and $204,000 in fiscal 2004 and 2003, respectively, includes $156,000 and $57,000 of interest earned on the note receivable due from one of 3PF's clients, which was issued in June 2002. See Note 5 of Notes to Consolidated Financial Statements.

The $231,000 loss on investments in fiscal 2002 includes a $250,000 loss related to the write-off of an unrealizable investment made by our 3PF business in a former customer.

The $8.0 million gain on Rentrak Japan transactions includes $1.0 million related to the sale of 3PF stock to Rentrak Japan, $6.4 million related to the sale of our entire interest in Rentrak Japan stock and $567,000 related to forgiveness of liabilities.

Income Taxes

Our effective tax rate was 25.0%, (27.8)% and 38.0%, respectively, in fiscal 2004, 2003 and 2002. The tax rate in fiscal 2004 was positively affected primarily by the benefit of tax intangible amortization. In addition, our effective tax rate differs from the federal statutory tax rate due to state income taxes.

Discontinued Operations

Discontinued operations include the operations of BlowOut Video, which consisted of retail store operations for the sale of used Units. Due to the significant increase in sell-through activity throughout the industry, the operations of BlowOut Video did not meet our expectations, and, as a result, during fiscal 2003, we initiated and completed a plan to discontinue the retail store operations of BlowOut Video. The plan called for an exit from the stores by the end of fiscal 2003, either through cancellation of the lease commitments and liquidation of assets, or through sale of the stores to a third party. As of March 31, 2003, all operations had ceased. In January 2004, we were notified by the purchaser of a portion of BlowOut Video's operations of their intent to default on a note receivable due to us. As such, we provided an approximate $0.2 million reserve for the remaining balance of this note receivable in the three-month period ended December 31, 2003. This reserve resulted in a reported loss, net of tax benefit, from these discontinued operations of $128,649, or $0.01 per share in fiscal 2004. We are continuing to sell our contractually available end-of-term PPT revenue-sharing product through broker channels. Current and prior year amounts have been restated to classify the results of BlowOut Video operations, net of related tax effects, as discontinued.

The results of operations related to BlowOut Video were as follows:

	Year Ended March 31,		
	2004	2003	2002
Revenue	$	$ 2,575,733	$ 6,620,165
Net loss	$ (128,649)	$ (582,627)	$ (792,757)
Net loss per share	$ (0.01)	$ (0.06)	$ (0.07)

The decrease in revenue in fiscal 2003 compared to fiscal 2002 is due to operating only three stores during fiscal 2003 compared to seven stores in fiscal 2002.

Inflation

We believe that the impact of inflation was minimal on our business in fiscal 2004, 2003 and 2002.

Liquidity and Capital Resources

Our sources of liquidity include our cash balance, cash generated from operations and our $2.0 million line of credit. Based on our current budget and projected cash needs, we believe that our available sources of liquidity will be sufficient to fund our current operations, the continued development of our business intelligence services and other cash requirements to at least March 31, 2005.

Cash and cash equivalents decreased $1.3 million to $8.7 million at March 31, 2004, compared to $10.1 million at March 31, 2003. This decrease resulted primarily from $2.1 million used in operations and $1.6 million used for the purchase of property and equipment, partially offset by $0.8 million of proceeds from the sale of 3PF, $0.5 million of payments received on a note receivable from 3PF's former largest customer, and $1.0 million of proceeds related to the issuance of stock pursuant to our stock plans. Our current ratio was 1.85:1.0 at March 31, 2004 compared to 1.77:1.0 at March 31, 2003.

Accounts receivable increased $5.6 million to $15.0 million at March 31, 2004 compared to $9.4 million at March 31, 2003. This increase is primarily due to changes in the terms of various combined VHS/DVD revenue-sharing agreements, together with an increase in the number of Units rented.

Advances to Program Suppliers increased $2.4 million to $4.2 million at March 31, 2004 compared to $1.8 million at March 31, 2003 primarily due to the timing of release dates for certain titles and the addition of a new Program Supplier. These amounts represent the unearned portion of guarantees with certain Program Suppliers.

Deferred tax assets, short and long-term, were $3.4 million at March 31, 2004 compared to $3.1 million at March 31, 2003. The deferred tax asset balance primarily relates to net operating loss carryforwards and various reserves not currently deductible for tax purposes.

Other current assets decreased $0.9 million to $1.5 million at March 31, 2004 compared to $2.4 million at March 31, 2003 primarily due to a decline in pre-paid expenses and decreased deferred costs due to a lower average order processing fee per Unit.

During fiscal 2004, we spent $1.6 million on property and equipment, including $1.0 million for the capitalization of internally developed software for our business intelligence service offerings. These additions were offset by the sale of approximately $800,000 book value of assets related to 3PF. We anticipate spending approximately $2.0 million on property and equipment in fiscal 2005, including

$0.7 million for the capitalization of internally developed software for our business intelligence service offerings.

Other long-term assets decreased $1.1 million to $0.8 million at March 31, 2004 compared to $1.9 million at March 31, 2003 primarily due to a $400,000 write-off of a security deposit related to 3PF's Columbus facility, $0.5 million associated with principal payments received on a note receivable from a former customer of 3PF and the establishment of a $200,000 reserve for the remaining balance of a note receivable related to the Blowout Video store sale.

Accounts payable increased $2.6 million to $15.4 million at March 31, 2004 compared to $12.8 million at March 31, 2003 primarily due to the timing of Program Supplier and other vendor payments.

Accrued liabilities decreased $317,000 to $0.9 million at March 31, 2004 compared to $1.2 million at March 31, 2003 primarily due to a $92,000 reduction in directors' and officers' insurance premiums and a $225,000 credit at March 31, 2003 due a participating retailer that was fully earned in fiscal 2004.

We currently have a secured revolving line of credit for $2.0 million, which expires September 1, 2004. We expect to renew this line prior to its expiration under similar terms. Interest on the line of credit is at our choice of either the bank's prime interest rate minus 0.5 percent or LIBOR plus 2 percent. The credit line is secured by substantially all of our assets. The terms of the credit agreement include certain financial covenants requiring: (1) a consolidated net loss for the fiscal quarter ended September 30, 2003, not to exceed $2.0 million; (2) a consolidated net profit to be achieved each fiscal quarter beginning with the quarter ended December 31, 2003 of a minimum of $1.00, and consolidated net profit not less than $1.00 on an annual basis, determined at fiscal year end; and (3) achievement of specified current and leverage financial ratios. Based upon the financial results reported as of and for the fiscal year ended March 31, 2004, we determined that we were in compliance with the financial covenants as of March 31, 2004. At March 31, 2004, we had no outstanding borrowings under this agreement.

Contractual Payment Obligations

A summary of our contractual commitments and obligations as of March 31, 2004 is as follows:

	Payments Due By Fiscal Period				
Contractual Obligation	**Total**	**2005**	**2006 and 2007**	**2008 and 2009**	**2010 and beyond**
Capital leases	$ 91,740	$ 50,040	$ 41,700	$	$
Operating leases	2,099,217	806,417	1,292,800		
Program Supplier guarantees	4,621,203	4,621,203			
Executive compensation	3,560,349	1,811,750	1,748,599		
	$ 10,372,509	$ 7,289,410	$ 3,083,099	$	$

Critical Accounting Policies and Estimates

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Following is a discussion of our critical accounting estimates. See Note 2 of Notes to Consolidated Financial Statements, *Significant Accounting Policies*, for additional information.

Allowance for Doubtful Accounts

Credit limits are established through a process of reviewing the financial history and stability of each customer. We regularly evaluate the collectibility of accounts receivable by monitoring past due balances. If it is determined that a customer may be unable to meet its financial obligations, a specific reserve is established based on the amount we expect to recover. An additional general reserve is provided based on aging of accounts receivable and our historical collection experience. If circumstances change related to specific customers, overall aging of accounts receivable or collection experience, our estimate of the recoverability of accounts receivable could materially change. Our allowance for doubtful accounts totaled $839,122 and $748,139, respectively, at March 31, 2004 and 2003.

Program Supplier Reserves

We have entered into guarantee contracts with certain program suppliers providing titles for distribution under our PPT system. These contracts guarantee the Program Suppliers minimum payments that are recoupable based on revenue-sharing activity. In some cases, these guarantees are paid in advance. For amounts not paid in advance, we record a liability for the gross amount of the guarantee due to the Program Supplier on the street date in accordance with SOP 00-2. The unearned portion of the guarantees is included as Advances to Program Suppliers on our consolidated balance sheets. Using historical experience and year to date rental experience for each title, we estimate the projected revenue to be generated under each guarantee. We have historically been able to reasonably estimate shortages after 30 to 60 days of rental activity. We then establish a reserve for titles that are projected to experience a shortage under the provisions of the guarantee. We continually review these factors and make adjustments to the reserves as needed. Actual results could differ from these estimates and could have a material effect on the recorded Program Supplier reserves. The balance in this reserve totaled $4.5 million and $3.7 million, respectively, at March 31, 2004 and 2003.

Deferred Taxes

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." In accordance with SFAS No. 109, deferred tax assets arise from the tax benefit of amounts expensed for financial reporting purposes but not yet deducted for tax purposes and from unutilized tax credits and NOL carry forwards. We evaluate our deferred tax assets on a regular basis to determine if a valuation allowance is required. To the extent it is determined the recoverability of the deferred tax assets is unlikely, we will record a valuation allowance against deferred tax assets. As of March 31, 2004 and 2003, we had a valuation allowance of $0.3 million and $0.4 million, respectively, recorded against our Canadian net operating loss carryforwards. Net deferred tax assets totaled $3.4 million and $3.3 million, respectively, as of March 31, 2004 and 2003.

New Accounting Pronouncements

See Note 3 of Notes to Consolidated Financial Statements for a discussion of the impact of new accounting pronouncements.

Off-Balance Sheet Arrangements

Other than disclosed above under Contractual Payment Obligations, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have considered the provisions of Financial Reporting Release No. 48 "Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments, and Disclosure of Quantitative and Qualitative Information about Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments and Derivative Commodity Instruments." We had no holdings of derivative financial or commodity instruments at March 31, 2004. A review of our other financial instruments and risk exposures at that date revealed that we had exposure to interest rate risk related to our cash deposits. We utilized sensitivity analyses to assess the potential effect of this risk and concluded that near-term changes in interest rates should not materially adversely affect our financial position, results of operations or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors
Rentrak Corporation:

We have audited the accompanying consolidated balance sheets of Rentrak Corporation and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2004. In connection with our audits of the consolidated financial statements, we also have audited the supplementary information included in Schedule II. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rentrak Corporation and subsidiaries as of March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2004 in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 4 to the accompanying consolidated financial statements, the Company has restated its consolidated balance sheet as of March 31, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows and the consolidated financial statement schedule for each of the years in the two-year period ended March 31, 2003.

/s/ KPMG LLP

Portland, Oregon
July 9, 2004

Rentrak Corporation and Subsidiaries

Consolidated Balance Sheets

	March 31, 2004	March 31, 2003 (restated)
Assets		
Current Assets:		
Cash and cash equivalents	$ 8,735,683	$ 10,063,541
Accounts receivable, net of allowances for doubtful accounts of $839,122 and $748,139	15,016,924	9,429,283
Advances to program suppliers	4,188,222	1,831,018
Income tax receivable	68,384	81,085
Deferred income tax assets	2,262,186	2,423,038
Other current assets	1,533,895	2,430,334
Total Current Assets	31,805,294	26,258,299
Property and equipment, net	2,466,668	2,404,763
Deferred income tax assets	1,099,660	894,083
Other assets	831,617	1,931,133
Total Assets	$ 36,203,239	$ 31,488,278
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 15,446,818	$ 12,800,736
Accrued liabilities	889,377	1,205,893
Accrued compensation	598,875	610,022
Deferred revenue	237,575	156,692
Total Current Liabilities	17,172,645	14,773,343
Long-Term Obligations:		
Lease obligations, deferred gain and customer deposits	234,922	668,039
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; none issued		
Common stock, $0.001 par value; 30,000,000 shares authorized; shares issued and outstanding: 9,739,537 and 9,471,612	9,740	9,472
Capital in excess of par value	41,093,976	39,655,212
Cumulative other comprehensive income	180,879	180,879
Accumulated deficit	(22,488,923)	(23,798,667)
Total Stockholders' Equity	18,795,672	16,046,896
Total Liabilities and Stockholders' Equity	$ 36,203,239	$ 31,488,278

See accompanying Notes to Consolidated Financial Statements.

Rentrak Corporation and Subsidiaries

Consolidated Statement of Operations

	For the Year Ended March 31,		
	2004	**2003**	**2002**
		(restated)	**(restated)**
Revenue	$ 78,132,413	$ 85,884,262	$ 96,021,254
Operating expenses:			
Cost of sales	60,090,493	71,347,003	71,912,971
Selling and administrative	16,357,299	14,434,343	17,266,350
Net gain from litigation settlements		(361,847)	(1,563,153)
Asset impairment		844,041	424,177
	76,447,792	86,263,540	88,040,345
Income (loss) from operations	1,684,621	(379,278)	7,980,909
Other income (expense):			
Interest income	244,252	204,283	195,628
Interest expense	(11,584)	(25,009)	(17,598)
Loss on investments			(231,820)
Gain on Rentrak Japan transaction			7,967,233
	232,668	179,274	7,913,443
Income (loss) from continuing operations before income taxes	1,917,289	(200,004)	15,894,352
Provision (benefit) for income taxes	478,896	(55,528)	6,039,854
Net income (loss) from continuing operations	1,438,393	(144,476)	9,854,498
Loss from discontinued operations, net of tax benefit of $78,850, $357,094 and $485,884	(128,649)	(582,627)	(792,757)