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RENTRAK CORP
Form 10-Q
February 13, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For Quarter Ended: December 31, 2003.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For the Transition Period from to

Commission file number: 0-15159

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

OREGON
(State or other jurisdiction of
incorporation or organization)

93-0780536
(IRS Employer
Identification no.)

7700 NE Ambassador Place, Portland, Oregon
(Address of principal executive offices)

97220
(Zip Code)

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

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

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

As of January 31, 2004, the Registrant had 9,709,281 shares of Common Stock
outstanding.

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PART I - FINANCIAL INFORMATION

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Item 1 Financial Statements

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RENTRAK CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS ASSETS

| | December 2003 |
|--|------------------|
| CURRENT ASSETS: | |
| Cash and cash equivalents | \$ 6,923,65 |
| Accounts receivable, net of allowance for doubtful accounts of \$706,966 and \$748,139 | 11,476,62 |
| Advances to program suppliers | 1,685,68 |
| Income tax receivable | 142,80 |

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| | |
|-----------------------------|--------------|
| Deferred tax asset | 3,375,36 |
| Other current assets | 1,504,56 |
| <hr/> | |
| Total current assets | 25,108,69 |
| PROPERTY AND EQUIPMENT, net | 2,324,77 |
| DEFERRED TAX ASSET | 919,39 |
| OTHER ASSETS | 1,022,81 |
| <hr/> | |
| TOTAL ASSETS | \$ 29,375,68 |
| <hr/> | |

(1) Derived from Rentrak's audited consolidated financial statement as of March 31, 2003

The accompanying notes are an integral part of these consolidated financial statements.

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RENTRAK CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|---|------------------|
| | December 2003 |
| <hr/> | |
| CURRENT LIABILITIES: | |
| Accounts payable | \$ 11,266,9 |
| Accrued liabilities | 772,2 |
| Accrued compensation | 523,5 |
| Deferred revenue | 316,9 |
| <hr/> | |
| Total current liabilities | 12,879,6 |
| <hr/> | |
| LONG-TERM LIABILITIES: | |
| Lease obligations, deferred gain and customer deposits | 349,7 |
| <hr/> | |
| Total long-term liabilities | 349,7 |
| <hr/> | |
| COMMITMENTS AND CONTINGENCIES | |
| STOCKHOLDERS' EQUITY: | |
| Preferred stock, \$.001 par value; | |
| Authorized: 10,000,000 shares, none issued | |
| Common stock, \$.001 par value; | |
| Authorized: 30,000,000 shares | |
| Issued and outstanding: 9,700,020 shares at December 31, 2003 and 9,471,612 at | |

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| | |
|--|-------------|
| March 31, 2003 | 9,7 |
| Capital in excess of par value | 40,838,7 |
| Accumulated other comprehensive income | 180,8 |
| Accumulated deficit | (24,883,06 |
| | 16,146,3 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 29,375,6 |

(1) Derived from Rentrak's audited consolidated financial statement as of March 31, 2003

The accompanying notes are an
integral part of these consolidated
financial statements.

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RENTRAK CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | (UNADJUSTED) Three Months Ended 2003 |
|--|--|
| REVENUES | \$ 19,402,730 |
| OPERATING COSTS AND EXPENSES: | |
| Cost of sales | 13,995,528 |
| Selling, general, and administrative | 3,960,758 |
| | 17,956,286 |
| INCOME (LOSS) FROM OPERATIONS | 1,446,444 |
| OTHER INCOME (EXPENSE): | |
| Interest income | 41,025 |
| Interest expense | (2,415) |
| | 38,610 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX PROVISION (BENEFIT) | 1,485,054 |
| INCOME TAX PROVISION (BENEFIT) | 563,880 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | 921,174 |
| LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX BENEFIT OF \$78,850 AND \$46,193 | (128,649) |
| NET INCOME (LOSS) | \$ 792,525 |

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NET INCOME (LOSS) PER SHARE:

Basic:

| | | |
|-------------------------|----|--------|
| Continuing operations | \$ | 0.09 |
| Discontinued operations | | (0.01) |

| | | |
|-------|----|------|
| Total | \$ | 0.08 |
|-------|----|------|

Diluted:

| | | |
|-------------------------|----|--------|
| Continuing operations | \$ | 0.09 |
| Discontinued operations | | (0.01) |

| | | |
|-------|----|------|
| Total | \$ | 0.08 |
|-------|----|------|

The accompanying notes are an integral part of these condensed consolidated financial statements.

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RENTRAK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | | (|
|--|----|-------------|
| | | Nine Months |
| | | 2003 |
| REVENUES | \$ | 52,362,037 |
| OPERATING COSTS AND EXPENSES: | | |
| Cost of sales | | 40,358,628 |
| Selling, general, and administrative | | 12,714,726 |
| Net gain from litigation settlement | | - |
| | | 53,073,354 |
| INCOME (LOSS) FROM OPERATIONS | | (711,317) |
| OTHER INCOME (EXPENSE): | | |
| Interest income | | 163,892 |
| Interest expense | | (10,240) |
| | | 153,652 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX PROVISION (BENEFIT) | | (557,665) |
| INCOME TAX PROVISION (BENEFIT) | | (211,913) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | | (345,752) |
| LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX BENEFIT | | |

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| | | |
|------------------------------|----|-----------|
| OF \$78,850 AND \$304,367 | | (128,649) |
| NET LOSS | \$ | (474,401) |
| NET INCOME (LOSS) PER SHARE: | | |
| Basic: | | |
| Continuing operations | \$ | (0.04) |
| Discontinued operations | | (0.01) |
| Total | \$ | (0.05) |
| Diluted: | | |
| Continuing operations | \$ | (0.04) |
| Discontinued operations | | (0.01) |
| Total | \$ | (0.05) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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RENTRAK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | (UNAUDITED) Nine Months Ended |
|--|----|----------------------------------|
| | | 2003 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ | (474,401) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Loss on disposal of discontinued operations | | 128,649 |
| Compensation expense related to stock repurchase | | - |
| Gain on sale of assets | | (94,951) |
| Tax benefit from stock option exercise | | 313,007 |
| Loss on write-down of lease deposit | | 400,000 |
| Depreciation and amortization | | 628,848 |
| Amortization of warrants | | - |
| Recovery of doubtful accounts | | (305,767) |
| Deferred income taxes | | (603,768) |
| Change in specific accounts: | | |
| Accounts receivable | | (1,260,330) |
| Advances to program suppliers | | (1,267,586) |
| Income tax receivable | | (61,718) |
| Other assets | | 585,912 |
| Accounts payable | | (1,444,090) |
| Accrued liabilities & compensation | | (379,180) |
| Deferred revenue and other liabilities | | (119,083) |

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| | |
|---|--------------|
| Net cash provided by (used in) operating activities | (3,954,458) |
| <hr style="border-top: 1px dashed black;"/> | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchases of property and equipment | (1,223,810) |
| Proceeds from sale of 3PF assets | 800,000 |
| Repayment of note receivable | 273,354 |
| Disposition (purchase) of other assets | 133,177 |
| <hr style="border-top: 1px dashed black;"/> | |
| Net cash used in investing activities | (17,279) |
| <hr style="border-top: 1px dashed black;"/> | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Payment of capital lease obligations | (38,957) |
| Repurchases of common stock | - |
| Issuance of common stock | 870,803 |
| <hr style="border-top: 1px dashed black;"/> | |
| Net cash provided by (used in) financing activities | 831,846 |
| <hr style="border-top: 1px dashed black;"/> | |
| NET CASH USED IN CONTINUING OPERATIONS. | (3,139,891) |
| NET CASH PROVIDED BY DISCONTINUED OPERATIONS. | - |
| DECREASE IN CASH AND CASH EQUIVALENTS | (3,139,891) |
| | |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 10,063,541 |
| <hr style="border-top: 1px dashed black;"/> | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 6,923,650 |
| <hr style="border-top: 3px double black;"/> | |

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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for -

| | |
|--|-----------|
| Income taxes, net of refunds received | \$ 61,718 |
| NON-CASH TRANSACTIONS | |
| Forgiveness of note receivable in exchange for stock | - |
| Disposal of property and equipment through finance lease | - |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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RENTRAK CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A: Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of

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RENTRAK CORPORATION (the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The results of operations for the three-month and nine-month periods ended December 31, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2004. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and footnotes thereto included in the Company's 2003 Annual Report to Shareholders.

The Condensed Consolidated Financial Statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's financial position and results of operations and cash flows.

The Condensed Consolidated Financial Statements include the accounts of the Company, its majority owned subsidiaries, and those subsidiaries in which the Company has a controlling interest after elimination of all inter-company accounts and transactions. Investments in affiliated companies owned 20 to 50 percent are accounted for on the equity method.

NOTE B: Net Income (Loss) Per Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the periods. Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted average shares of common stock outstanding plus potential common stock arising from dilutive stock options and warrants.

The weighted average number of shares of common stock and potential common stock and net income used to compute basic and diluted net income (loss) per share for the three-month and nine-month periods ended December 31, 2003 and 2002 were as follows:

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Note B: Net Income (loss) Per Share

| | 3-Months Ended December 31, 2003 | | 9-Mon Decembe |
|---|-------------------------------------|-----------|------------------|
| | Basic | Diluted | Basic |
| Weighted average number of shares of common stock outstanding used to compute basic net income (loss) | | | |
| percommon share | 9,630,830 | 9,630,830 | 9,563,460 |
| Effect of dilutive stock options and warrants | - | 630,426 | - |
| Weighted average number of shares of common stock used to compute diluted net | | | |

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| | | | |
|--|------------|------------|--------------|
| income (loss) per common share outstanding and common stock equivalent | 9,630,830 | 10,261,256 | 9,563,460 |
| | ===== | ===== | ===== |
| Net income (loss) used in basic and diluted net income (loss) per common share: | | | |
| Continuing operations | \$ 921,174 | \$ 921,174 | \$ (345,752) |
| Discontinued operations | (128,649) | (128,649) | (128,649) |
| | ----- | ----- | ----- |
| Net income (loss) | \$ 792,525 | \$ 792,525 | \$ (474,401) |
| | ===== | ===== | ===== |
| Net Income (loss) per common share: | | | |
| Continuing operations | \$ 0.09 | \$ 0.09 | \$ (0.04) |
| Discontinued operations | (0.01) | (0.01) | (0.01) |
| | ----- | ----- | ----- |
| Net Income (loss) per common share | \$ 0.08 | \$ 0.08 | \$ (0.05) |
| | ===== | ===== | ===== |

Note B: Net Income (loss) Per Share

| | 3-Months Ended December 31, 2002 | | 9- Dec |
|--|-------------------------------------|--------------|-----------|
| | Basic | Diluted | Basic |
| | ----- | ----- | ----- |
| Weighted average number of shares of common stock outstanding used to compute | | | |
| basic net income (loss) per common share | 9,520,705 | 9,520,705 | 9,684,7 |
| Effect of dilutive stock options and warrants | - | - | |
| | ----- | ----- | ----- |
| Weighted average number of shares of common stock used to compute diluted net income (loss) per common share outstanding and common stock equivalents | 9,520,705 | 9,520,705 | 9,684,7 |
| | ===== | ===== | ===== |
| Net income (loss) used in basic and diluted net income (loss) per common share: | | | |
| Continuing operations | \$ (299,195) | \$ (299,195) | \$ 183,4 |
| Discontinued operations | (75,369) | (75,369) | (496,5 |
| | ----- | ----- | ----- |
| Net income (loss) | \$ (374,564) | \$ (374,564) | \$ (313,1 |
| | ===== | ===== | ===== |
| Net Income (loss) per common share: | | | |
| Continuing operations | \$ (0.03) | \$ (0.03) | \$ 0. |
| Discontinued operations | (0.01) | (0.01) | (0. |

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| | | | |
|------------------------------------|-----------|-----------|-----------|
| Net Income (loss) per common share | \$ (0.04) | \$ (0.04) | \$ (0.04) |
|------------------------------------|-----------|-----------|-----------|

Options and warrants to purchase approximately 10,000 shares of common stock for the three month period ended December 31, 2003, were outstanding but were not included in the computation of diluted EPS because the exercise prices of the options and warrants were greater than the average market price of the common shares and as such would be antidilutive. Options and warrants to purchase approximately 2,000,000 shares of common stock for the three month period ended December 31, 2002, and approximately 1,900,000 and 1,700,000 shares of common stock for the nine-month periods ended December 31, 2003 and 2002, respectively, were outstanding but were not included in the computation of diluted EPS because their effect would be antidilutive due to a loss for the period.

NOTE C: Business Segments, Significant Suppliers and Major Customers

The Company classifies its services in three business segments, Entertainment, Fulfillment and Other. The Entertainment business segment includes the following business activities: the PPT System whereby under its Pay-Per-Transaction (PPT) revenue sharing program, the Company enters into contracts to lease videocassettes, digital videodiscs ("DVD's"), and video games, (collectively "Units"), from Program Suppliers (producers of motion pictures and licensees and distributors of home videocassettes and DVD's, and video game publishers) which are then leased to Participating Retailers for a percentage of the rentals charged by the Participating Retailers to their customers; data tracking and reporting services provided by the Company to motion picture studios; Essential(TM) business intelligence services, including Box Office Essentials(TM), Business Intelligence Essentials(TM) and Supply Chain Essentials(TM), recently developed and currently being provided to customers; and internet services provided by formovies.com, Inc., a subsidiary. The Fulfillment business segment consists of 3PF which is a subsidiary of the Company that provided order processing, fulfillment and inventory management services to retailers and wholesalers and to other businesses requiring just-in-time fulfillment. Effective July 1, 2003, the Company completed the sale of 3PF's operating assets at its Wilmington, Ohio, facility. 3PF ceased all of its remaining operations at its Columbus, Ohio, facility on July 31, 2003. As of December 31, 2003, a majority of the identifiable assets of 3PF relate to a note receivable from a former customer. (See Note E). The Other business segment formerly included BlowOut Video, Inc. (BlowOut Video), a video retailer, which the Company discontinued during the three-month period ended June 30, 2002 (See Note D).

Business Segments

Following are the revenues, income (loss) from continuing operations, and identifiable assets of the Company's continuing business segments for the periods indicated (unaudited):

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| | Nine Months Ended December 31, 2003 | Nine Months Ended December 31, 2002 | Three Months December 31, |
|---|--|--|------------------------------|
| | ----- | ----- | ----- |
| Revenues before Intersegment Eliminations: | | | |
| Entertainment | \$ 47,737,738 | \$ 53,315,821 | \$ 19,402 |
| Fulfillment | 5,154,443 | 12,786,135 | |
| | ----- | ----- | ----- |
| | \$ 52,892,181 | \$ 66,101,956 | \$ 19,402 |
| | ----- | ----- | ----- |
| Intersegment Revenue Eliminations: | | | |
| Entertainment | \$ - | \$ - | \$ |
| Fulfillment | (530,144) | (1,620,203) | |
| | ----- | ----- | ----- |
| | \$ (530,144) | \$ (1,620,203) | \$ |
| | ----- | ----- | ----- |
| Revenues from External Customers: | | | |
| Entertainment | \$ 47,737,738 | \$ 53,315,821 | \$ 19,402 |
| Fulfillment | 4,624,299 | 11,165,932 | |
| | ----- | ----- | ----- |
| | \$ 52,362,037 | \$ 64,481,753 | \$ 19,402 |
| | ----- | ----- | ----- |
| Income (Loss) from Operations: | | | |
| Entertainment | \$ 597,012 | \$ 2,412,778 | \$ 915 |
| Fulfillment | (1,308,329) | (2,199,766) | 530 |
| | ----- | ----- | ----- |
| | \$ (711,317) | \$ 213,012 | \$ 1,446 |
| | ----- | ----- | ----- |
| | December 31, 2003 | March 31, 2003 | |
| | ----- | ----- | |
| Identifiable Assets: | | | |
| Entertainment | \$ 27,702,434 | 25,801,989 | |
| Fulfillment | 1,673,248 | 4,924,444 | |
| | ----- | ----- | |
| | \$ 29,375,682 | \$ 30,726,433 | |
| | ----- | ----- | |

The Company currently offers substantially all of the titles of a number of Program Suppliers, including Buena Vista Pictures Distribution, Inc., a subsidiary of The Walt Disney Company, MGM Home Entertainment, a subsidiary of Metro Goldwyn Mayer, Inc., Paramount Home Video, Inc., Twentieth Century Fox

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Home Entertainment (formerly Fox Video), a subsidiary of Twentieth Century Fox Film Corporation, Universal Studios Home Video, Inc., and Warner Home Video. For the three-month period ended December 31, 2003, the Company had one program supplier whose product generated 35 percent, a second that generated 14 percent, and a third that generated 13 percent of Rentrak revenue. No other program supplier provided product that generated more than 10 percent of Rentrak revenue for the three-month period ended December 31, 2003. One customer accounted for 21 percent of the Company's revenue in the three-month period ended December 31, 2003. For the nine-month period ended December 31, 2003, the Company had one program supplier whose product generated 17 percent, a second that generated 15 percent, and a third and fourth that each generated 13 percent of Rentrak revenue. No other program supplier provided product that generated more than 10 percent of Rentrak revenue for the nine-month period ended December 31, 2003. No customer accounted for more than 10 percent of the Company's revenue in the nine-month period ended December 31, 2003.

For the three-month period ended December 31, 2002, the Company had one program supplier whose product generated 19 percent, and a second that generated 14 percent of Rentrak revenue. No other program supplier provided product that generated more than 10 percent of revenue for the three-month period ended December 31, 2002. One customer accounted for 24 percent of the Company's revenue in the three-month period ended December 31, 2002. The agreement with this customer expired July 31, 2003. For the nine-month period ended December 31, 2002, the Company had one program supplier whose product generated 18 percent, a second that generated 16 percent, and a third and fourth that each generated 13 percent of Rentrak revenue. No other program supplier provided product that generated more than 10 percent of Rentrak revenue for the nine-month period ended December 31, 2002. One customer accounted for 16 percent of the Company's revenue in the nine-month period ended December 31, 2002. The agreement with this customer expired July 31, 2003.

NOTE D: Discontinued Operations

Due to the significant increase in sell through activity throughout the industry, the operations of BlowOut Video did not meet the expectations of management. As a result, during the three-month period ended June 30, 2002, management initiated 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. Rentrak is continuing to sell its contractually available end-of-term PPT revenue sharing product through broker channels. Prior year amounts have been restated to classify results of BlowOut Video operations as discontinued.

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In January 2004, the Company was notified by the purchaser of a portion of BlowOut Video's operations of their intent to default on a note receivable due to the Company. As such, the Company 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 the three-month and nine-month periods ended December 31, 2003. BlowOut Video generated revenues of \$0.6 million and a net loss of \$75,369, or \$0.01 per share, in the three-month period ended December 31, 2002 and it generated revenues of \$2.5 million and a net loss of \$496,599, or \$0.05 per share, in the nine-month period ended December 31, 2002.

Note E: 3PF Transactions

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In June 2002, 3PF entered into an agreement to sublease approximately 194,000 square feet of its distribution facility in Columbus, Ohio to its largest customer. The term of the lease expires July 31, 2006. The sublease requires monthly rent payments to 3PF under amounts, terms and conditions similar to 3PF's master lease for this facility. Additionally in June 2002 in conjunction with the facility sublease, 3PF entered into a financing lease with this customer for the existing equipment within this distribution facility and the associated costs for additional equipment to configure the layout to the customer's specifications. This lease, upon expiration, contains a \$1.00 purchase option. The lease for the equipment resulted in a note receivable in the amount of \$1,838,062 payable to 3PF in monthly installments. The current and long-term portions of this note receivable at December 31, 2003, are \$482,842 and \$803,041, respectively. The transaction resulted in a deferred gain in the amount of \$509,044 that is being recognized as interest income by 3PF ratably throughout the life of the lease.

In fiscal 2003, management determined that it was unlikely that 3PF would achieve its business plans and 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, management assessed during the quarter ended March 31, 2003, the current and historical operating and cash flow losses, prospects for growth in revenues and other alternatives for improving the operating results of 3PF.

Accordingly, management performed an assessment of the fair value of the 3PF assets under the guidelines of SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This assessment resulted in 3PF recognizing an asset impairment 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.

In June 2003, the Company 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 have been released from the lease. The cash purchase price of \$800,000 is approximately

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equal to the net book value of the assets sold at March 31, 2003. The Company announced it had completed this asset sale transaction, effective July 1, 2003, and received the cash purchase price in full. At June 30, 2003, the Company classified and reported the value of these assets held for sale on the consolidated balance sheet. The operations of 3PF have not been reported as discontinued operations as the continuing involvement criteria outlined in FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, have not been met.

During the sale negotiations, the Company 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. As a result, the Columbus, Ohio distribution facility lease was not included in the asset sale transaction. The Columbus, Ohio distribution facility was used exclusively to service this customer and as of August 1, 2003 was not in use. During the three-month period ended December 31, 2003 the Company completed the termination of this 3PF lease obligation for the Columbus, Ohio distribution facility, effective December 1,

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2003, for a cost of \$650,000. 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. As a result, the Company recorded a pre-tax credit to 3PF's cost of sales of \$650,000 during the three-month period ended December 31, 2003, representing a partial recovery to the pre-tax charge the Company made to 3PF's cost of sales in the amount of \$1.3 million during the three-month period ended September 30, 2003. This charge, established in accordance with FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, represented the Company's estimate of the cost to terminate this lease at that time. The following table summarizes the lease termination charges during the fiscal year:

| | Liability | Non-Cash | |
|-------------------|-----------|----------|----|
| March 31, 2003 | \$ - | \$ - | \$ |
| Accrual | 900,000 | 400,000 | |
| Reversal | (650,000) | - | |
| Payments | - | - | |
| | 250,000 | 400,000 | \$ |
| December 31, 2003 | \$ | \$ | \$ |

Note F: Debt Compliance

In May 2002, the Company entered into an agreement for a new secured revolving line of credit. The line of credit carried a maximum limit of \$4,500,000 and was to expire July 1, 2003. Effective June 16, 2003, the bank extended the line of credit to the Company through October 1, 2003, under the same general terms and conditions while the Company and the bank finalized a new line of credit. Effective September 15, 2003, the bank amended and extended the current line of credit with the Company through September 1, 2004. The Company elected to reduce the maximum amount available under the line to

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\$2,000,000. The Company has the 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 the Company's 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 \$2,000,000; (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 March 31, 2004; and (3) achievement of specified current and leverage financial ratios. Based upon the financial results reported as of December 31, 2003 and for the three-month period then ended, the Company has determined it is in compliance with the financial covenants. At December 31, 2003 and February 12, 2004, the Company had no outstanding borrowings under this agreement.

NOTE G: Stock-Based Compensation

At December 31, 2003, the Company has various stock-based compensation plans, including stock option plans. Rentrak accounts for stock-based compensation utilizing the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued To

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Employees." Accordingly, no compensation expense is recognized for fixed option plans because the exercise prices of employee stock options equal or exceed the market prices of the underlying stock on the measurement dates. The following table illustrates the effect on net income (loss) and net income (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

| | Three Months Ended | | Nine |
|---|--------------------|--------------|------------|
| | December 31, | | Dec |
| | 2003 | 2002 | 2003 |
| Net income (loss), as reported | \$ 792,525 | \$ (374,564) | \$ (474, |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (231,493) | (279,953) | (616, |
| Pro forma net income (loss) | \$ 561,032 | \$ (654,517) | \$ (1,091, |
| Net income (loss) per share: | | | |
| Basic - as reported | \$ 0.08 | \$ (0.04) | \$ (0 |
| Diluted - as reported | \$ 0.08 | \$ (0.04) | \$ (0 |
| Basic - pro forma | \$ 0.06 | \$ (0.07) | \$ (0 |
| Diluted - pro forma | \$ 0.05 | \$ (0.07) | \$ (0 |

The effects of applying SFAS 123 for providing proforma disclosures for the period presented above are not likely to be representative of the effects on reported net income (loss) for future periods because options often vest over several years and additional options generally are granted each year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

Certain information included in Management's Discussion and Analysis of Financial Condition and Results of Operations 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: the Company's ability to continue to market the Pay Per Transaction ("PPT") System successfully, the financial stability of participating retailers and their performance of their obligations under the PPT System, non-renewal of the Company's line of credit,

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business conditions 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, the continued availability of prerecorded videocassettes ("Cassettes") and digital videodiscs ("DVD's") and video games from program suppliers and market acceptance of the Company's Essential(TM) business intelligence products. Such factors are discussed in more detail in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003.

Results of Operations

Continuing Operations - Entertainment Operations and Other Continuing

----- Subsidiaries -----

For the three-month period ended December 31, 2003, total consolidated revenue decreased \$1.9 million, or 9 percent, to \$19.4 million from \$21.3 million for the three-month period ended December 31, 2002. For the nine-month period ended December 31, 2003, total consolidated revenue decreased \$12.1 million, or 19 percent, to \$52.4 million from \$64.5 million for the nine-month period ended December 31, 2002.

Total revenue includes the following PPT revenue sharing fees in the Entertainment business segment: order processing fees generated when Cassettes and DVD's ("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 the Company's 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 by the Company to program suppliers ("DRS"), revenues from Box Office Essentials(TM), Supply Chain Essentials(TM), Business Intelligence Essentials(TM), and Home Video Essentials(TM), part of the Company's Essential(TM) business intelligence service

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offerings, as well as charges for Internet services provided by the Company's subsidiary formovies.com, Inc. In addition, total consolidated revenue includes the Fulfillment business segment representing charges to customers of the Company's 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 until July 31, 2003. In June 2003, the Company agreed to sell 3PF's operating assets at its Wilmington, Ohio facility (See Note E). The Other business segment formerly included revenues from BlowOut Video, Inc. (BlowOut Video), a video retailer, which the Company elected to discontinue during the three month period ended June 30, 2002 (See Note D.).

The \$1.9 million decrease in total consolidated revenues of the Company for the three-month period ended December 31, 2003 is primarily due to a decrease in 3PF revenue as 3PF ceased providing services to its customers as of July 31, 2003 (See Note E). 3PF revenues, excluding intercompany activity, decreased from \$5.8 million to \$0.0 million during the three-month period ended December 31, 2003. This decrease in the Company's 3PF revenues was partially offset by increases in its PPT order processing and transaction fees, as well as, increases in revenues from its DRS services and the Company's Essential(TM) business intelligence service offerings. Entertainment business segment revenues increased 25 percent

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or \$3.9 million from \$15.5 million for the three month period ended December 31, 2002, to \$19.4 million for the three month period ended December 31, 2003, as PPT Units shipped increased 177 percent during the three-month period ended December 31, 2003 compared to the three-month period ended December 31, 2002. This product shipment increase was primarily due to a recent VHS/DVD revenue sharing program the Company entered into with a new major supplier in combination with the increase in orders from a large customer for that supplier's product. The Company expects this increase in orders from this customer to continue for at least the next three fiscal quarters, representing the remaining portion of a purchase commitment the customer has with the Company. The Company also expects increases in orders from other customers for this supplier's product. The Company's total order processing and transaction fees from all suppliers' products increased a combined \$1.9 million, or 15 percent, for the three-month period ended December 31, 2003 compared to the three-month period ended December 31, 2002.

The 15 percent revenue increase in order processing and transaction fees compared to the 177 percent increase in Units shipped during the three-month period ended December 31, 2003 is primarily attributable to (i) PPT "output programs" and other PPT programs under which the program supplier and the Company agreed to charge a lower order processing and transaction fee in exchange for the Participating Retailers' commitment to order and accept an increased total number of Units, and (ii) a decline in the number of rental turns of the Units in the Participating Retailers' stores. These programs were an economic response to the changing dynamics of the home video rental market, as a result of the shift from the VHS cassette format to the DVD format, and has resulted in an increased total number of Units leased by Participating Retailers with a corresponding reduced amount of fees per leased Unit earned by the Company and

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the program suppliers. The Company expects this trend in product programs to continue. In addition, there was an approximate \$2.0 million net increase in other revenues from the PPT business segment. This increase included increases of approximately \$0.6 million in DRS revenues, \$0.5 million in sell-through fees, and \$0.9 million in revenues from the Company's business intelligence service revenues. The Company expects its sell-through revenue increases to continue as the result of changed terms and conditions in the new product programs.

The \$12.1 million decrease in total consolidated revenues for the nine-month period ended December 31, 2003 is primarily due to a decrease in 3PF revenue and PPT System order processing fees and transaction fees. These decreases were partially offset by an increase in revenues from DRS and the Company's Essential(TM) business service offerings. 3PF revenues, excluding intercompany activity, decreased approximately \$6.6 million during this same nine-month period from \$11.2 million for the nine-month period ended December 31, 2002 to \$4.6 million for the nine-month period ended December 31, 2003, due to ceasing 3PF operations as of July 31, 2003 (See Note E). Entertainment business segment revenues decreased despite the fact that PPT Units shipped increased 62 percent during the nine-month period ended December 31, 2003 as compared to the nine-month period ended December 31, 2002. Total order processing and transaction fees decreased a combined \$7.3 million during the nine-month period ended December 31, 2003 compared to the nine-month period ended December 31, 2002. This decrease in Entertainment business segment revenue is primarily attributable to (i) PPT "output programs" and other PPT programs under which the program supplier and the Company agreed to charge a lower order processing and transaction fee in exchange for the Participating Retailers' commitment to order and accept an increased total number of Units, and (ii) a decline in the number of rental turns of the Units in the Participating Retailers' stores. These

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decreases in order processing and transaction fees were partially offset by the positive effects from increased shipments of Units attributable to a new VHS/DVD revenue sharing program with a new major supplier. Additionally, these decreases in order processing and transaction fees were partially offset by an approximate \$3.1 million net increase in other revenues from the Entertainment business segment. This increase in other revenues included increases of approximately \$0.6 million in DRS revenues, \$0.4 million in sell-through fees, and \$2.1 million in revenues from the Company's Essential(TM) business intelligence services offerings. The Company expects its sell-through revenue increases to continue as the result of changed terms and conditions in the new product programs.

Cost of Sales in the Entertainment business segment consists of order processing costs, transaction costs, sell through costs and freight costs, and represents the direct costs to produce the PPT revenue sharing revenues. Cost of Sales in the Fulfillment business segment generally consists of storage fees, receiving fees, handling fees, special service fees, freight charges and other fees, and represents the direct costs to produce 3PF revenues. Total cost of sales for the three-month period ended December 31, 2003 decreased to \$14.0 million from \$18.0 million for the three-month period ended December 31, 2002, a decrease of \$4.0 million, or 22 percent, primarily due to a decrease in 3PF cost of sales of \$6.6 million as the result of 3PF ceasing operations July 31, 2003 and recording a partial

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recovery of \$650,000 to the \$1.3 million lease termination charge during the three month period ended September 30, 2003 (See Note E). This decrease is partially offset by an approximate \$2.6 million increase in cost of sales primarily attributable to the \$2.4 million net increase in Entertainment business segment order processing, transaction, and sell-through revenues noted above. Cost of sales as a percent of total revenues was 75 percent for the three-month period ended December 31, 2003 compared to 80 percent for the three-month period ended December 31, 2002 for the Entertainment business segment. The decrease in Entertainment business segment cost of sales as a percent of total revenues is primarily due to the approximately \$0.9 million in revenues from the Company's Essential(TM) business service offerings during the three month period ended December 31, 2003, with nominal related cost of sales, compared to no revenue from these business offerings in the three-month period ended December 31, 2002. Excluding the increase in Essential(TM) business service revenues, total cost of sales as a percent of revenues would have been 78 percent for the three-month period ended December 31, 2003.

Total cost of sales for the nine-month period ended December 31, 2003 decreased to \$40.4 million from \$53.3 million for the nine-month period ended December 31, 2002, a decrease of \$12.9 million, or 24 percent. Cost of sales in the Fulfillment business segment decreased \$7.4 million due to the related decline in 3PF revenues as a result of ceasing operations July 31, 2003. The cost of sales decrease includes a net \$650,000 charge related to costs of terminating 3PF's Columbus, Ohio, facility lease in the nine-month period ended December 31, 2003 (See Note E). In addition, approximately \$5.5 million of the total cost of sales decrease is primarily attributable to the overall \$6.9 million decrease in Entertainment business segment order processing, transaction, and sell-through revenues as noted above. The Entertainment business segment cost of sales as a percent of total revenues was 73 percent for the nine-month period ended December 31, 2003 compared to 78 percent for the nine-month period ended December 31, 2002. The decrease in Entertainment business segment cost of sales as a percent of total revenues is primarily due to the approximately \$2.1 million in revenues from the Company's Essential(TM) business service offerings during the nine month period ended December 31, 2003, with nominal related cost

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of sales, compared to no revenue from these business offerings in the nine-month period ended December 31, 2002. In addition, the decrease is due to the receipt of a \$0.5 million credit from a program supplier during the three-month period ended June 30, 2003. Excluding the increase in Essential's revenues and the program supplier credit, total cost of sales as a percent of total revenues would have been 78 percent for the nine-month period ended December 31, 2003.

Selling, general and administrative expenses in the Entertainment business segment consist of the indirect costs to sell, administer and manage the PPT revenue sharing business as well as the Company's Essential(TM) business service offerings, consisting primarily of, but not limited to, compensation and benefits, development, marketing and advertising costs, legal and professional fees, communication costs, depreciation and amortization of tangible fixed assets and software, as well real and personal property leases. Selling, general and administrative expenses in the Fulfillment business segment consist of the indirect

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costs to sell, administer and manage the 3PF fulfillment business, consisting primarily of, but not limited to, compensation and benefits, development, marketing and advertising costs, legal and professional fees, communications costs, depreciation and amortization of fixed assets and software, as well as real and personal property leases. Total selling, general and administrative expenses were \$4.0 million for the three-month period ended December 31, 2003, compared to \$3.7 million for the three-month period ended December 31, 2002, an increase of \$0.3 million, or 6 percent. The increase in selling, general and administrative expenses for the fiscal 2004 three-month period is primarily the result of: (1) an increase in the Entertainment business segment's overall overhead costs of approximately \$0.7 million during the period, primarily attributable to costs associated with the Company's Essential(TM) business service offerings including Box Office Essentials, Business Intelligence Essentials(TM) and Supply Chain Essentials(TM); and (2) an approximate \$0.5 million decrease in 3PF's overall fulfillment overhead costs during the three-month period ended December 31, 2003 due to ceasing operations July 31, 2003.

Total selling, general and administrative expenses were \$12.7 million for the nine-month period ended December 31, 2003, compared to \$11.3 million for the nine-month period ended December 31, 2002, an increase of \$1.4 million, or 13 percent. The increase in selling, general and administrative expenses for the nine-month period is primarily the result of: (1) an increase in the Entertainment business segment's overall overhead costs of approximately \$2.5 million during the period, of which \$1.8 million is attributable to the Company's Essential(TM) business service offerings noted above; and (2) an approximate \$1.1 million decrease in 3PF's overall fulfillment overhead costs due to ceasing operations July 31, 2003.

The net gain from the litigation settlement with a prior customer of the Company, Hollywood Entertainment, was \$0.4 million for the three-month period ended June 30, 2002.

Operating income from continuing operations for the three-month period ended December 31, 2003 was \$1.4 million compared to an operating loss from continuing operations of \$0.5 million for the three-month period ended December 31, 2002. The improved operating results for the fiscal 2003 three-month period were primarily due to the increase in Entertainment business segment revenues and associated gross margin combined with the reduction of 3PF lease termination costs of \$650,000 (See Note E). Operating loss from continuing operations for the nine-month period ended December 31, 2003 was \$0.7 million. This compares to

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operating income of \$0.2 million for the nine-month period ended December 31, 2002. The decline in operating results for the fiscal 2004 nine-month period was primarily due to the decrease in PPT revenue sharing revenues and associated gross margin combined with the 3PF lease termination costs noted above.

Other income (expense) increased from income of \$11 thousand for the three-month period ended December 31, 2002 to \$39 thousand for the three-month period ended December 31, 2003, primarily due to interest earned on the note

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receivable due from one of 3PF's clients (See Note E). Other income (expense) increased from income of \$83 thousand for the nine-month period ended December 31, 2002 to \$154 thousand for the nine-month period ended December 31, 2003, primarily due to interest earned on the note receivable due from one of 3PF's clients (See Note E).

The effective tax rate during the three and nine-month periods ended December 31, 2003 and 2002 was 38 percent.

As a result, for the three-month period ended December 31, 2003, the Company recorded net income from continuing operations of \$0.9 million, or 5 percent of total revenue, compared to net loss from continuing operations of \$0.3 million, or 1 percent of total revenue, in the three-month period ended December 31, 2002. The increase in net income from continuing operations is primarily attributable to the increase in revenues and associated gross margin from the Entertainment business segment and the reduction of costs associated with closing 3PF operations and recording a partial recovery of \$650,000 to the prior period lease termination charge as noted above. For the nine-month period ended December 31, 2003, the Company recorded net loss from continuing operations of \$0.3 million, or less than 1 percent of total revenue, compared to income from continuing operations of \$0.2 million, or less than 1 percent of total revenue, in the nine-month period ended December 31, 2002. The decrease in net income from continuing operations is primarily attributable to the decrease in revenues and associated gross margin from the Entertainment business segment as noted above and the costs associated with closing 3PF operations.

Discontinued Operations

As discussed in Note D., during the three-month period ended June 30, 2002, the Company elected to discontinue store operations of its retail subsidiary BlowOut Video, Inc. In January 2004, the Company was notified by the purchaser of a portion of BlowOut Video's operations of their intent to default on a note receivable due to the Company. As such, the Company 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 the three-month and nine-month periods ended December 31, 2003. BlowOut Video generated revenues of \$0.6 million and a net loss of \$75,369, or \$0.01, per share, in the three-month period ended December 31, 2002 and it generated revenues of \$2.5 million and a net loss of \$496,599, or \$0.05 per share, in the nine-month period ended December 31, 2002. Management does not anticipate any further significant activities or events related to the discontinued operations.

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Financial Condition

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At December 31, 2003, total assets were \$29.4 million, a decrease of \$1.3 million from \$30.7 million at March 31, 2003. As of December 31, 2003, cash decreased \$3.2 million to \$6.9 million from \$10.1 million at March 31, 2003 (see the Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements). The reduction in cash balance is primarily attributable to (i) terms of various combined VHS/DVD revenue-sharing agreements and reflects differences in the timing of the Company's collection of revenue-sharing funds from participating retailers and the Company's remittance of the portion of those funds owed to program suppliers, and (ii) the continued investment required for the development of the Company's Essential(TM) business service offerings. Net accounts receivable increased \$1.6 million from \$9.9 million at March 31, 2003 to \$11.5 million at December 31, 2003, primarily due to an increase in PPT revenues. At December 31, 2003, advances to program suppliers were \$1.7 million, an increase of \$1.3 million from \$0.4 million, 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. In some cases, these guarantees are paid in advance. At December 31, 2003, other current assets were \$1.5 million, a decrease of \$0.7 million from \$2.2 million at March 31, 2003. The decrease in other current assets is due to a decline in pre-paid expenses, payments received on a note receivable, and decreased deferred costs due to a lower average order processing fee per unit. Other assets decreased \$0.9 million from \$1.9 million at March 31, 2003 to \$1.0 million at December 31, 2003. The decrease in other assets is associated with the write-off of the security deposit on 3PF's Columbus facility (See Note E), and the reserve established on the note receivable related to the Blowout Video store sale (See Note D).

At December 31, 2003, total liabilities were \$13.2 million, a decrease of \$2.1 million from \$15.3 million at March 31, 2003. Accounts payable decreased \$1.4 million from \$12.7 million at March 31, 2003 to \$11.3 million at December 31, 2003, primarily due to the timing of program supplier and other vendor payments. Accrued compensation decreased \$0.1 million from \$0.6 million at March 31, 2003, to \$0.5 million at December 31, 2003, in part due to 3PF's ceasing operations as of July 31, 2003.

At December 31, 2003, total stockholders' equity was \$16.1 million, an increase of \$0.7 million from the \$15.4 million at March 31, 2003. Common stock and capital in excess of par value increased, on a combined basis, \$1.2 million from \$39.7 million at March 31, 2003 to \$40.9 million at December 31, 2003, primarily due to the exercise of employee stock options. Accumulated deficit increased \$0.5 million from \$24.4 million at March 31, 2003 to \$24.9 million at December 31, 2003 due to net loss from the nine-month period.

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LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2003, the Company had cash of \$6.9 million compared to \$10.1 million at March 31, 2003. The Company's current ratio (current assets/current liabilities) was 1.95 at December 31, 2003 compared to 1.74 at March 31, 2003.

In May 2002, the Company entered into an agreement for a new secured revolving line of credit. The line of credit carried a maximum limit of \$4,500,000 and was to expire July 1, 2003. Effective June 16, 2003, the bank extended the line of credit to the Company through October 1, 2003, under the same general terms and conditions while the Company and the bank finalized a new line of credit. Effective September 15, 2003, the bank amended and extended the current line of credit with the Company through September 1, 2004. The Company elected to reduce the maximum amount available under the line to \$2,000,000. The Company has the choice of either the bank's prime interest rate minus 0.5 percent or LIBOR plus

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2 percent. The credit line is secured by substantially all of the Company's 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 \$2,000,000; (2) a consolidated net profit to be achieved each fiscal quarter beginning with the quarter ending 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 March 31, 2004; and (3) achievement of specified current and leverage financial ratios. Based upon the financial results reported as of December 31, 2003 and for the three-month period then ended, the Company has determined it is in compliance with the financial covenants. At December 31, 2003 and February 12, 2004, the Company had no outstanding borrowings under this agreement.

The Company's sources of liquidity include its cash balance, cash generated from operations and its available credit resources. Based on the Company's current budget and projected cash needs, the Company believes that its available sources of liquidity will be sufficient to fund the Company's existing entertainment operations, the development of its new business intelligence services, and other cash requirements for the fiscal year ending March 31, 2004.

Rentrak Corporation
Table of Contractual Obligations
As of December 31, 2003

| Contractual Obligations | Payments due by period | | | | |
|-----------------------------|------------------------|---------------------|----------------|----------------|----------------|
| | Total | Less than 1 Year | 1 - 3 Years | 3 - 5 Years | More than 5 |
| Capital Lease Obligations | \$ 226,535 | \$ 110,508 | \$ 116,027 | \$ - | \$ - |
| Operating Lease Obligations | \$ 2,299,932 | \$ 805,224 | \$ 1,494,708 | \$ - | \$ - |
| Purchase Obligations | \$ 1,024,037 | \$ 1,024,037 | \$ - | \$ - | \$ - |
| Executive Compensation | \$ 2,520,059 | \$ 1,554,650 | \$ 965,409 | \$ - | \$ - |
| Total | \$ 6,070,563 | \$ 3,494,419 | \$ 2,576,144 | \$ - | \$ - |

CRITICAL ACCOUNTING POLICIES

The Company considers as its most critical accounting policies those that require the use of estimates and assumptions, specifically, accounts receivable reserves and studio guarantee reserves. In developing these estimates and

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assumptions, the Company takes into consideration historical experience, current and expected economic conditions and other relevant data. Please refer to the Notes to the 2003 Consolidated Financial Statements in the Company's 2003 Annual Report on Form 10-K for a full discussion of the Company's accounting policies.

Allowance for Doubtful Accounts

Credit limits are established through a process of reviewing the financial history and stability of each customer. The Company regularly evaluates 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 the Company expects to recover. An additional general reserve is provided based on aging of accounts receivable and the Company's historical collection experience. If circumstances change related to specific customers, overall aging of accounts receivable or collection experience, the Company's estimate of the recoverability of accounts receivable could materially change.

Studio Reserves

The Company has entered into guarantee contracts with certain program suppliers providing titles for distribution under the PPT system. These contracts guarantee minimum payments to the suppliers. The Company, using historical experience and year to date rental experience for each title, estimates the projected revenue to be generated under each guarantee. The Company establishes reserves for titles that are projected to experience a shortage under the provisions of the guarantee. The Company continually reviews these factors and makes adjustments to the reserves as needed. Actual results could materially differ from these estimates and could have a material effect on the recorded studio reserves.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The Company has 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." The Company had no holdings of derivative financial or commodity instruments at December 31, 2003. A review of the Company's other financial instruments and risk exposures at that date revealed that the Company had exposure to interest rate risk. The Company 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 the Company's financial position, results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13(a) - 15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer as of the end of the period covered by this report (the "Evaluation Date"). Based upon this evaluation, the Company's Chief Executive Officer and

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Chief Financial Officer have concluded that the Company's disclosure controls and procedures as of the Evaluation Date were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) as appropriate to allow timely decisions regarding required disclosure and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Controls over Financial Reporting

The Company maintains a system of internal control over financial reporting designed to provide reasonable assurance that transactions are properly recorded and summarized so that reliable financial records and reports can be prepared and assets safeguarded. There are inherent limitations in the effectiveness of any system of internal controls including the possibility of human error and the circumvention or overriding of controls. Additionally, the cost of a particular accounting control should not exceed the benefit expected to be derived.

In the three months ended December 31, 2003, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is from time to time a party to legal proceedings and claims that arise in the ordinary course of its business, including, without limitation, collection matters with respect to customers. In the opinion of management, the amount of any ultimate liability with respect to these types of actions is not expected to materially affect the financial position, results of operations or cash flows of the Company as a whole.

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Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits - See the Exhibit Index on page 30 hereof.
- (b) Reports on Form 8-K . No reports on Form 8-K were filed during the quarter ended December 31, 2003.

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SIGNATURE

Pursuant to the requirements 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.

Dated this 13th of February, 2004.

RENTRAK CORPORATION

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By:

Mark L. Thoenes
Chief Financial Officer
Signing on behalf of the registrant

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EXHIBIT INDEX

The following exhibits are filed herewith:

| Exhibit Number | Exhibit |
|-------------------|--|
| ----- | ----- |
| 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 | Certifications pursuant to 18 U.S.C. Section 1350. |

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