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 (State or other jurisdiction of incorporation or organization)	**93-0780536** (I.R.S. 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**

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
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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)