

RENTRAK CORP
Form 10-K
June 12, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549**

FORM 10-K

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

For the Fiscal Year Ended: March 31, 2006

OR

- 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 if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes No

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 No

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.

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the last sales price (\$9.50) 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, 2005), was \$98,543,186.

The number of shares outstanding of the Registrant's Common Stock as of June 1, 2006 was 10,719,310 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 2006 Annual Meeting of Shareholders.

RENTRAK CORPORATION
2006 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1. BUSINESS

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) constitutes 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. Our forward-looking statements are based on our current expectations and are subject to numerous risks and uncertainties. As such, our actual future results, performance or achievements may differ materially from the results expressed in, or implied by, our forward-looking statements. Please refer to Item 1A. Risk Factors in this Annual Report on Form 10-K. We assume no future obligation to update our forward-looking statements or to provide periodic updates or guidance.

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). 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 paper copies of these reports, without charge, by contacting Investor Relations at (503) 284-7581.

Overview

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Prior to April 1, 2005, we operated in one business segment, Entertainment. Effective April 1, 2005, we implemented a new corporate structure, which includes separate Pay-Per-Transaction (PPT) and Advanced Media and Information (AMI) operating divisions and, accordingly, we are now reporting certain financial information by individual segment under this new structure.

Our PPT Division focuses on managing our business operations that facilitate the delivery of home entertainment content products and related rental and sales information for that content to home video specialty stores and other retailers, including grocery stores and convenience stores (Retailers), on a revenue sharing basis. Our PPT Division generated 87%, 88% and 84% of total revenues in fiscal 2006, 2005 and 2004, respectively.

Our AMI Division concentrates on the management and growth of our Essentials Suite of business intelligence services, which are no longer in the development stage, as well as operating our direct revenue sharing (DRS) services. Our Essentials Suite software and services, offered primarily on a recurring subscription basis, provides unique data collection, management, analysis and reporting functions, resulting in business intelligence information valuable to our clients. Our DRS services collect, track, audit and report the results of certain retailers direct revenue sharing activity to our suppliers under established agreements, on a fee for service basis. Our AMI Division generated 11%, 11% and 9% of total revenues in fiscal 2006, 2005 and 2004, respectively.

PPT Division

We collect, process, analyze and report rental and sales information of digital videodiscs (DVDs), videocassettes (VHSs) and video games (collectively Units) subleased/sublicensed to Retailers. We lease product from various suppliers. Under our PPT System, Retailers that rent Units to consumers generally sublease Units and other media from Rentrak, usually for a low initial fee and share a portion of each retail rental transaction with us.

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Pay-Per-Transaction System

We distribute Units principally to Retailers through our PPT System. The PPT System has various product programs which enable Retailers to obtain Units at a significantly lower overall cost than if they purchased the Units from traditional video distributors.

After the Retailer is approved for participation in the PPT System, Units are subleased to the Retailer, generally for a low initial fee plus a percentage of revenues generated by the Retailer from rentals to consumers. We retain a portion of most fees and remit the remainder to the appropriate motion picture studios or other licensee or owner of the rights to certain video programming content 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 they would if they purchased Units directly from a distributor. 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).

Marketing and Relationships with Program Suppliers

We currently market our PPT System throughout the United States and Canada. We offer titles from a number of Program Suppliers including, but not limited to: DreamWorks, LLC; First Look Studios; Genius Products, Inc.; Lions Gate Films, Inc.; Maple Pictures Corp; MGM Home Entertainment, Inc.; Paramount Home Entertainment, Inc.; Sony Pictures Home Entertainment, Inc.; Twentieth Century Fox Home Entertainment, Inc.; and Warner Brothers, including Warner Home Video, Inc., HBO, New Line Cinema, TNT and Lightyear Entertainment. Our arrangements with 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 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.

During fiscal 2006, 2005 and 2004, we had several Program Suppliers that supplied product in excess of 10% of our total revenues as follows:

	2006	2005	2004
Program Supplier 1	24 %	36 %	20 %
Program Supplier 2	16 %	4 %	5 %
Program Supplier 3	14 %	13 %	10 %
Program Supplier 4	5 %	6 %	13 %
Program Supplier 5	n/a	1 %	13 %

There were no other Program Suppliers who provided product that generated 10% or more of our total revenues for the years ended March 31, 2006, 2005 or 2004. Although management does not believe that our relationships with significant current Program Suppliers will be terminated in the near term, a loss of any of these suppliers could have a material adverse effect on our financial condition, results of operations and liquidity.

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 guarantees with four Program Suppliers totaling approximately \$2.7 million for fiscal 2007.

Significant Customers

We had one PPT customer that accounted for 19% and 14% of our total revenues in fiscal 2005 and 2004, respectively. The agreement with this PPT customer expired in September 2004. There were no other customers that accounted for 10% or more of our total revenue in fiscal 2006, 2005 or 2004.

Distribution of Cassettes, DVDs and Video Games

Our proprietary Rentrak Profit Maker Software (the RPM Software) and Video Retailer Essentials Software (the VRE Software) allow Participating Retailers to order Units through their Point of Sale (POS) system and provide the Participating Retailers with substantial information regarding all offered titles. Ordering occurs via a networked computer interface (RPM Software) or over the Internet (VRE Software). To further assist the Participating Retailers in ordering, we also produce a monthly product catalog (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. We contract with a third-party fulfillment provider to distribute our Units via both ground and overnight air courier to assure continued delivery to Participating Retailers on or prior to the street date. The handling and freight costs of such distribution were approximately 3.8% of our cost of sales in fiscal 2006.

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 via 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 these 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 somewhat seasonal because Program Suppliers tend to introduce theatrical 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 four to five 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 PPT Division continues to be affected by the changing dynamics in the home video and game rental market. This market is highly competitive, rapidly changing and influenced greatly by consumer spending patterns and behaviors. The end consumer has a wide variety of choices from which to select their entertainment content. Some examples include renting Units of product from our Participating Retailers, ordering product direct via online subscriptions and/or online distributors, subscribing to at-home movie channels, purchasing and owning the Unit directly or selecting an at-home pay-per-view option. Our PPT system focuses on the traditional brick and mortar retailer serviced by a distributor on a wholesale basis: for example, 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, 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 Entertainment One. 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 Sony Pictures Home Entertainment, Inc. (Sony), to market product on revenue sharing terms. Domestically, SuperComm also processes data for Sony's direct relationships with Blockbuster, Movie Gallery and several other Retailers.

We also face direct competition from the Program Suppliers. All major Program Suppliers sell Units directly to major Retailers, including Blockbuster, the world's largest chain of home video specialty stores, and to online movie rental subscription services, such as Netflix. We believe many of the major Program Suppliers have direct revenue sharing arrangements with Blockbuster and Movie Gallery, the world's second largest chain of home video specialty stores, including Hollywood Entertainment. We also believe that certain Program Suppliers have executed direct revenue sharing agreements with several other large Retailers and online movie rental subscription services. 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.

We also compete with businesses that use alternative distribution methods to provide video entertainment directly to consumers, such as the following: (1) online movie rental subscription services (2) direct broadcast satellite transmission systems; (3) traditional cable television systems; (4) pay-per-view cable television systems; (5) video-on-demand, or VOD; and (6) delivery of programming via the Internet. Technological improvements in any of these distribution methods as well as lower pricing models may make these options 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.

AMI Division

The AMI Division concentrates on expanding the customer base of our Essentials Suite of business intelligence services offered primarily on a recurring subscription basis, as well as operating our Direct Revenue Sharing (DRS) services.

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Essentials Suite

Currently included in the Essentials Suite are the following:

- **Box Office Essentials** for reporting domestic and international gross receipt theatrical ticket sales; and
- **Home Video Essentials** for reporting VHS, DVD and game rentals across the U.S. and Canada.

Box Office Essentials

Box Office Essentials primarily reports domestic and international theatrical gross receipt ticket sales to motion picture studios and movie theater owners (BOE clients). Through Box Office Essentials , Rentrak provides BOE clients with access to box office performance data pertaining to specific motion pictures and movie theater circuits, both real-time and historical. Data is currently collected for virtually all movie theaters in North America, Guam and Puerto Rico and is primarily obtained via electronic connectivity to theater box offices. BOE clients include Buena Vista, Twentieth Century Fox, New Line Cinema, Paramount Pictures, Sony, Universal and Warner Bros.

Box Office Essentials continues to expand internationally. The international customer base will initially focus on the international distributor community, much as the domestic service successfully targeted motion picture studios in Hollywood, California. In order to successfully implement our current expansion plan, we will require more information technology resources to support the compilation of data content from various territories throughout the world as well as our data processing center located in our Portland office.

Our primary competitor is Nielsen EDI, which is a service of Nielsen Entertainment and part of VNU Media Measurement & Information. A principal difference between our products and our competitor s is our use of technology to drive content acquisition and real-time data polling from content providers. Since the market in which we operate is comprised of a small number of major customers, client relations and retention are critical. Our competitor has significantly greater financial resources than us, brand name recognition and long-standing relationships with our BOE clients. These factors may enable our competition to surpass our technological advancements, which could have a material adverse effect on our ability to grow this line of business as well as on our results of operations and financial condition.

Home Video Essentials

Home Video Essentials measures DVD, VHS and video game rentals from both retailers and online channels across North America at the point-of-sale (POS). Home Video Essentials covers approximately 70% of the video specialty retailers within the United States and 90% within Canadian territories. Clients have 24/7 web-access to current weekly market and title-level projection data on consumer spending and activity. Additionally, our systems capture historical data dating back to 2001.

Clients of Home Video Essentials include all the home entertainment divisions of the major and mini-major Hollywood studios such as Warner Home Video, Buena Vista Home Entertainment, Paramount/DreamWorks Home Entertainment, Universal Studios Home Entertainment, Sony Pictures Home Entertainment, 20th Century Fox Home Entertainment, New Line Cinema Home Entertainment and Lions Gate Entertainment. Microsoft Corporation is a client with respect to video game data.

During the past fiscal year, Home Video Essentials expanded its service by creating a new vertical service offering, which provides primary, custom and syndicated research on the U.S. home video rental market. This new research service has allowed the Home Video Essentials client base to expand into New York by providing data to Wall Street analysts; clients include JPMorgan, Citigroup, UBS and Wachovia Securities.

Home Video Essentials is successfully branded, having its weekly information published in Video Business, Daily Variety, Home Media Retailing, Billboard Magazine, USA Today, New York Times online and Entertainment Weekly.

Our primary competitors are Adams Media Research (AMR) and Home Media Retailing Research (HMRR). AMR models its data based upon Home Video Essentials data published in Video Business,

one of the home video industry's leading trade magazines. The industry's other trade magazine, Home Media Retailing, publishes its own data on the rental market obtained from its in-house research department, HMRR. A principal difference between our services and those of our competitors is our use of real-time data polling from content providers. Our competitors may have significantly greater financial resources than us. This factor may enable our competition to surpass our technological advancements, which could have a material adverse effect on our ability to grow this line of business, as well as a similar effect on our results of operations and financial condition.

DRS

Our DRS service is tailored to meet the needs of major studios (20th Century Fox Home Entertainment, Paramount Pictures Home Entertainment, Warner Home Video, etc.) and major independent program suppliers (Lions Gate Films, Genius Products, etc.) (collectively "DRS clients") who provide home entertainment content directly to large brick-and-mortar and online retailers (Blockbuster Entertainment, Movie Gallery, Netflix, etc.) (collectively "DRS retailers") on a revenue sharing basis. For each DRS client, we collect, process, audit, summarize and report the number of rental and previously viewed sales transactions and corresponding retail revenue generated on each title distributed to each DRS retailer on a revenue sharing basis. Additionally, Rentrak conducts periodic physical audits of DRS retailers to insure all DRS inventory is utilized in a manner consistent with the terms of its revenue sharing arrangement with our DRS client.

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Our only direct competitor is SuperComm, Inc., a small subsidiary of Sony Pictures Home Entertainment (SPHE). SuperComm was originally founded in 1991 as a third-party revenue sharing provider to the supermarket segment of the home entertainment business. It was later sold to SPHE, which now relies on it for the services (collection, auditing, analysis, configuring and reporting of data) it requires to manage its DRS relationships. We do not believe that SuperComm provides DRS services to any home entertainment content providers other than SPHE.

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There are a number of risks that may adversely affect the size and profitability of our DRS business. First and foremost, our business is dependent on the studios/Program Suppliers maintaining DRS relationships with the largest brick-and-mortar and online retailers. Should content providers end their DRS relationships, they would have no need for our DRS service. Secondly, our current DRS clients could decide to invest the resources necessary to recreate the services we provide, and therefore eliminate us as a third-party service provider. Thirdly, SPHE could decide to invest significant resources to improve SuperComm's service offering, and take away one or more of our DRS clients. Lastly, should the overall size of the home entertainment rental market contract significantly, and/or the large brick-and-mortar and online retailers share of the overall rental market decline significantly, the amount of data we process and audit on behalf of our DRS clients would also be reduced, which would result in a corresponding decrease in our DRS revenues.

Other Division

The Other Division includes revenue and expenses relating to products and/or services which are still in early stages, as well as corporate expenses and other expenses which are not allocated to a specific division. Included in the Other Division as of March 31, 2006 were the following:

- **OnDemand Essentials** that measures viewership of on demand content in the cable and broadband industries;
- **Retail Essentials** for use by studios, game publishers and retailers for reporting DVD, VHS and video game sales across North America; and
- **Supply Chain Essentials** for use by Retailers for supply chain management. It provides real-time, Web-based access to inventory, order entry, supplier communications, and shipment and tracking activity.

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On Demand Essentials

OnDemand Essentials is the first of a new line of patent pending products designed to measure and report anonymous video on demand (VOD) usage data. Participating distributors in the service represent over 53% of VOD enabled homes and over 70% of all on demand content. We have agreements with and collect data from the following operators: Comcast, Insight, Cablevision, Charter and Bresnan Communications. We have begun testing data sources from a sixth distributor and are now working to add data from the second tier cable multiple system operators (MSOs).

Our OnDemand Essentials Content Provider site is a transactional tracking and uniform, flexible reporting system that enables users to view and analyze on-demand content across all cable MSOs with whom we have agreements in place. As of April 2006, we had a total of 29 clients for the service, including cable networks and studios distributing on demand content to cable companies.

To date, we are the only service measuring VOD at the transaction level. Nielsen Media Research has announced plans to track VOD; however, we believe their model will continue to be a sampling model in comparison to our transactional model.

In March 2006, we introduced a new module, AdEssentials Tracker. This service is designed to track advertising on demand. Over the next twelve to eighteen months, we expect to launch two additional modules.

During the first quarter of fiscal 2007, we plan to move OnDemand Essentials to the AMI Division.

Retail Essentials

Retail Essentials primarily reports North American national consumer sales estimations of DVDs, VHSs and Universal Media Disks (UMDs) to motion picture studios and retailers (RE clients). Through Retail Essentials , we provide RE clients with access to national consumer sales estimates at the industry level, by format and at the title level. Data is collected from thousands of retail locations in North America via weekly data feeds and projected nationally. Prospective clients for Retail Essentials include motion picture studios, talent agencies, production companies and others.

Retail Essentials has been in development for two years and is expected to commercially launch in the summer of 2006. Additionally, we expect to move Retail Essentials to the AMI Division during the first quarter of fiscal 2007.

Supply Chain Essentials

Supply Chain Essentials (SCE) is supply chain management software developed by Rentrak which allows clients to manage the flow of products and funds at every point in the supply chain until the product reaches the consumer. We host the software for customers access under an application service provider s model and license its use. A typical client for SCE is any company that receives orders (business to business or business to consumer), maintains warehouses and issues purchase orders to vendors.

Companies like SAP, Oracle, Manhattan Associates, High Jump and Red Prairie already offer logistics and supply chain software. To various degrees, these types of software solutions require specialized personnel and IT infrastructure with a relatively high initial investment, making the solution cost prohibitive for smaller to mid-sized companies. Since we host our software, our clients generally pay a monthly service fee which is significantly lower than our competitors pricing and makes our offering more attractive to a broader range of customers. Furthermore, our software provides web presence to traditional retail companies, known as brick and mortar companies, as well as integration to their existing software infrastructure.

We are targeting our potential clients though both direct sales and strategic alliances with established logistics and supply chain entities. Our solution is developed in house and it does not depend on any third party code. It supports various databases and it integrates with the clients existing software. Additionally, our solution can be customized to meet the clients needs without losing necessary functionality.

During the first quarter of fiscal 2007, we plan to move Supply Chain Management Essentials to the AMI Division.

Trademarks, Copyrights and Proprietary Rights

We have registered our RENTRAK, PPT, Pay Per Transaction, Entertainment Essentials, Box Office Essentials, Home Video Essentials, Chain Essentials, On Demand Essentials, Video Game Essentials, ForMovies, ForMovies.com, DigiTrak, Ontrak, Fastrak, RPM, Active Home Video, Movie Wizard, Gotta Have It Guarantee and other 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 additional marks in the Essentials trademark family. Our trademark registrations will remain valid for an unlimited period, as long as we continue using the trademarks in commerce or as long as we intend to resume use of the mark during any period of non-use. 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. Our copyright in our software will last for at least 95 years from the first sale or licensing of the software. Our trademarks, copyrights, and other proprietary rights give us the power to prevent competitors from competing with us unfairly. 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 and protect against improper usage.

Employees

As of March 31, 2006, including all subsidiaries, we employed 201 full-time employees and 32 part-time employees. We consider our relations with our employees to be good.

Financial Information About Industry Segments

See Note 16 of Notes to the Consolidated Financial Statements for information regarding our business segments and revenue by product line.

Geographic Information

All of our revenues are generated within the United States and Canada, with Canada accounting for less than 10% of total revenues. All of our long-lived assets are located within the United States.

ITEM 1A. RISK FACTORS

If our efforts to attract, retain and grow our base of retailers participating in our PPT system are not successful, our operations may be adversely affected.

If our efforts to attract, retain and grow our base of retailers participating in our PPT system are not successful, our

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The success of our PPT Division depends on traditional brick and mortar retailers actively participating in our PPT System. Declines in the numbers of Participating Retailers and the volumes of Units leased by Participating Retailers from us could ultimately lead to reductions in revenue and have an adverse impact on our results of operations, financial condition and cash flows.

Our Participating Retailers could establish relationships with Program Suppliers and enter into direct revenue sharing agreements.

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If our Participating Retailers formed direct revenue sharing relationships with Program Suppliers, the need for our PPT system would be greatly reduced, which could have an adverse impact on our business, financial condition and liquidity.

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Our Participating Retailers could establish relationships with Program Suppliers and enter into direct revenue sharing

If the financial stability of our Participating Retailers and their performance of their obligations under our PPT System declines, our results of operations, financial condition and cash flows may be adversely impacted.

Our ultimate success is highly dependent on the successful operations of our Participating Retailers. If their business declines due to changes in customer behavior, competition, management issues or other factors, they may be unable to meet their financial obligations to us. This could negatively affect our results of operations, financial condition and cash flows.

A loss of a significant Program Supplier, our ability to retain our base of Participating Suppliers along with the quality and volumes of content they provide, and adverse changes in terms of our revenue sharing agreements with Program Suppliers could result in a decline in revenues and results of operations and have an adverse impact on our financial condition.

We rely on our Program Suppliers for Units we sublease to Participating Retailers. A decrease in the number of Program Suppliers participating in our system, a decline in the financial stability of our Program Suppliers and/or a decline in the quality and volume of the content they produce could result in a reduction in overall Units available to Participating Retailers. Additionally, many of our agreements with 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 titles available 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. A loss of any of our significant suppliers or a change in any one of the above conditions could have a material adverse effect on our financial condition, results of operations and liquidity.

If our efforts to attract, retain and grow our base of clients who subscribe to our Essentials services are not successful, we may not be able to expand those lines and our operations may be adversely affected.

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The success of our AMI Division depends on effective marketing, sales and customer relations in regards to existing services as well as our clients' acceptance of future enhancements and new services. If we are unable to retain existing clients and/or secure new clients, our operating costs may exceed our revenues, which could have an adverse impact on our results of operations, financial condition and liquidity.

We may be unable to obtain requisite data and other content to source our systems which provide our Essentials services.

Our Essentials services rely on data which is collected from a wide variety of sources. Once received, the data must be reviewed, processed and, at times, converted to our required file format. If we are unable to obtain quality data feeds and/or process that data timely, we may not be able to meet the needs of our clients. Thus, we could lose clients, which would have an adverse impact on our ability to grow our Essentials lines of business, which could have an adverse impact on our results of operations, financial condition and liquidity.

Our Essentials services are highly dependent on Information Technology resources.

If we are unable to attract, hire and retain high quality information technology personnel at reasonable rates, we may not be able to timely meet the needs of existing clients and may not be able to enhance existing services or develop new lines of business. This could have an adverse effect on our results of operations, financial condition and liquidity.

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Our DRS business is dependent on the studios maintaining direct revenue sharing relationships with the largest brick-and-mortar and online retailers.

We currently collect, process, audit, summarize and report transactional data relating to rental and sales activity of Units at very large traditional and online retailers who have revenue sharing agreements directly with major studios. A change in these relationships or declines in general in the overall size of the home entertainment rental market could potentially reduce the need for our services and the quantity of data we process, which would result in a corresponding reduction in our DRS revenues, our results of operations, financial condition and liquidity.

We face intense competition in the markets in which we operate.

Some of our competitors have extensive distribution networks, long-standing relationships with our suppliers and customers, stronger brand name recognition and significantly greater financial resources than us. These factors may enable our competition to have increased bargaining and purchasing power relating to resources which could enable them to operate in a more cost effective manner and/or to surpass our technological advancements. This could have a material adverse effect on our results of operations, financial condition and our ability to grow our lines of business.

Our business is greatly influenced by 1) technological advancements, 2) consumer behaviors and demand and 3) changes in the industries in which we operate.

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The markets in which our divisions operate are highly competitive, rapidly changing and influenced greatly by consumer spending patterns and behaviors. The end consumer has a wide variety of choices from which to select their entertainment content. Some examples include renting Units of product from our Participating Retailers, ordering product directly via online subscriptions and/or online distributors, subscribing to at-home movie channels, purchasing and owning the Unit directly or selecting an at-home pay-per-view option. Our systems primarily rely on the end consumer choosing to obtain Units from traditional brick and mortar retailers. Technological advancements, changes in distribution methods as well as lower pricing models may make other options more

Our business is greatly influenced by 1) technological advancements, 2) consumer behaviors and demand and 3) c