

CAPTION SHEET

CASE MANAGEMENT SYSTEM

1. REPORT DATE: 00/00/00 :  
 2. BUREAU: FUS :  
 3. SECTION(S) : 4. PUBLIC MEETING DATE:  
 5. APPROVED BY: : 00/00/00  
 DIRECTOR: :  
 SUPERVISOR: :  
 6. PERSON IN CHARGE: : 7. DATE FILED: 02/02/00  
 8. DOCKET NO: A-310804 F5000 : 9. EFFECTIVE DATE: 00/00/00

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PARTY/COMPLAINANT:

RESPONDENT/APPLICANT: DPI-TELECONNECT L L C

COMP/APP COUNTY:

UTILITY CODE: 310804

ALLEGATION OR SUBJECT

APPLICATION OF DPI-TELECONNECT, LLC, FOR APROVAL OF THE SALE OF A MAJORITY INTEREST TO RENT-WAY, INC.

DOCUMENT  
FOLDER

DOCKETED  
MAR 31 2000

MAXWELL, BAKER & McFATRIDGE, P.C.

ATTORNEYS AT LAW  
2525 SOUTH SHORE BLVD., SUITE 410  
LEAGUE CITY, TEXAS 77573

ORIGINAL

KYLE L. DICKSON  
Shareholder  
kdickson@maxwellbaker.com

TELEPHONE (281) 521-2000  
FACSIMILE (281) 521-2010

GALVESTON OFFICE (409) 765-7446  
FACSIMILE (409) 762-8519

January 28, 2000

Pennsylvania Public Utility Commission  
Room B20, North Office Bldg.  
North & Commonwealth Streets  
P. O. Box 3265  
Harrisburg, Pennsylvania 17105-3265

A. 310804 F5000

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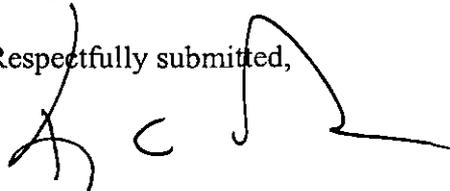
Re: *Application of DPI-Teleconnect, L.L.C., for Approval of the Sale of a Majority Interest*

Dear Sir or Madam:

Enclosed herewith for filing on behalf of *DPI-Teleconnect, L.L.C.*, is an original and (4) copies of an Application to Approve the Sale of a Majority Interest. Also enclosed is our firm's check in the amount of \$350.00 to cover your filing fee.

Please date-stamp the extra copy of this Application and return to the undersigned in the self-addressed stamped envelope. If you have any questions, please contact me at (281) 521-2000.

Respectfully submitted,



Kyle L. Dickson

Enclosures

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PENNSYLVANIA  
PUBLIC UTILITY COMMISSION

IN THE MATTER OF THE APPLICATION §  
OF dPi-TELECONNECT, L.L.C. §  
FOR APPROVAL OF SALE §  
OF A MAJORITY INTEREST §

Docket No. A-310804F5000

**APPLICATION OF dPi-TELECONNECT, L.L.C.  
TO APPROVE SALE OF A MAJORITY INTEREST**

COMES NOW, dPi-Teleconnect, L.L.C. ("dPi") and files this its Application to Approve the Sale of a Majority Interest and in support thereof submits the following:

1. Factual Background

dPi was approved by this Commission to provide resold local exchange services on September 15, 1999 in Docket No. A-310804. At the time of the approval, dPi was owned by dPi Holdings, Inc. ("Holdings") and Koch Ventures, Inc. ("Koch"). Holdings owned sixty percent (60%) and Koch owned forty percent (40%). Holdings is owned equally by David Dorwart and David Pikoff, President and Vice-President of dPi respectively.

On November 24, 1999, Rent-Way, Inc. ("Rent-Way") entered into a Purchase Agreement with Koch, dPi, and Holdings to acquire certain interests in dPi. Under the terms of that agreement, Rent-Way acquired Koch's forty percent (40%) interest in dPi and an additional nine percent (9%) of Holding's interest. Rent-Way's total interest as of November 24, 1999, in dPi, is forty-nine percent (49%). The agreement provides that Rent-Way is to acquire an additional eleven percent (11%) of Holdings' interest subject to various Commissions' approvals, bringing its total interest in dPi to sixty percent (60%).

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dPi-Teleconnect, L.L.C. requests that this Commission approve the change in majority interest.

2. Managerial and Technical Qualifications

Since dPi-Teleconnect, L.L.C. was approved by this Commission, its technical and managerial qualifications have significantly improved. dPi is currently licensed in 26 states to provide resold local exchange services and has operations in 14 of those states. Attached hereto as Exhibit "A" is a list of the states in which dPi has been certificated. dPi began offering resold local exchange services in April of 1999 and currently has in excess of 10,000 customers. dPi employs approximately 50 people to handle sales, provisioning and customer service.

The management of dPi will not change subsequent to approval of this application. Messrs. Dorwart and Pikoff will remain with the company and continue to manage its operations. The current board of directors of dPi are listed in Exhibit "B".

3. Financial Information

Attached hereto as Exhibit "C" is dPi's most recent financial statement. Additionally, Rent-Way, under the terms of the agreement, will provide dPi an additional \$3,000,000 in working capital on an "as needed" basis. Attached hereto as Exhibit "D" is a letter from its President evidencing that commitment.

Rent-Way is the nation's second largest retail purchase company currently operating in 41 states with 1,144 stores. Rent-Way is a publicly traded company; its stock is traded on the New York Stock Exchange under the symbol RWY. Attached hereto as Exhibit "E" is Rent-Way's most recent financial statement.

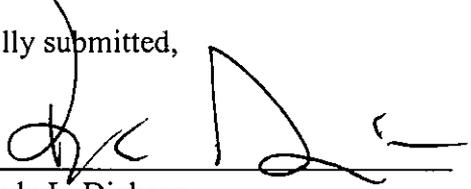
4. Service Offerings

dPi's services and operating territories will not change subsequent to the approval of this application.

WHEREFORE, dPi-Teleconnect, L.L.C. requests that this Commission approve the change in the majority ownership of its company from dPi Holdings, Inc. to Rent-Way, Inc.

Respectfully submitted,

By:



Kyle L. Dickson  
TBA No. 05841310  
Maxwell, Baker & McFatridge, P.C.  
2525 South Shore Blvd., Suite 410  
League City, Texas 77573  
(281) 521-2000  
(281) 521-2010 - FAX

Attorney for dPi-Teleconnect, L.L.C.

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**EXHIBIT A**

DPI-Teleconnect,L.L.C.-Status Report

No.	State	ALEC APPLICATION APPROVED (*Est)
1	Alabama	5/10/99
2	Arizona	
3	Arkansas	2/25/99
4	California	12/16/99
5	Colorado	6/18/99
6	Connecticut	
7	Delaware	
8	Florida	11/17/98
9	Georgia	11/15/99
10	Hawaii	
11	Idaho	9/9/99
12	Illinois	12/11/98
13	Indiana	
14	Iowa	9/9/99
15	Kansas	5/6/99
16	Kentucky	9/30/98
17	Louisiana	
18	Maine	4/20/99
19	Maryland	
20	Massachusetts	10/31/98
21	Minnesota	
22	Mississippi	6/24/99
23	Missouri	
24	Nebraska	
25	Nevada	8/26/99
26	New Jersey	9/1/98
27	New Mexico	
28	New York	10/21/98
29	North Carolina	6/14/99
30	Oklahoma	8/16/99
31	Oregon	7/15/99
32	Pennsylvania	9/20/99
33	Rhode Island	5/17/99
34	South Carolina	
35	Tennessee	3/2/99
36	Texas	11/19/98
37	Vermont	
38	Virginia	8/3/99
39	Washington	
40	West Virginia	8/30/99
41	Wisconsin	3/11/99

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**EXHIBIT B**

**dPi-TELECONNECT, L.L.C.**

**OFFICERS AND BOARD OF DIRECTORS**

Officers:

1. David Britton Dorwart  
President
2. David Michael Pikoff  
Vice President
3. William E. Morgenstern  
Chairman/CEO  
Rent Way, Inc.

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**EXHIBIT C**

**dPI TeleConnect, LLC**  
**Profit and Loss**  
**October 1999**

	Oct '99
<b>Ordinary Income/Expense</b>	
<b>Income</b>	
<b>New Service</b>	
1-New Service Income	213,879.88
Refund - New Service	-9,233.00
<b>Total New Service</b>	204,446.88
2-Recurring Service Income	250,835.78
<b>Total Income</b>	455,282.64
<b>Gross Profit</b>	455,282.64
<b>Expense</b>	
1) Projected Cost of Sales	
1.1 New Service Network Expense	159,095.90
1.2 Recurring Service Network	87,792.52
1.4 Taxes due to agencies	52,357.50
<b>Total 1) Projected Cost of Sales</b>	299,245.92
2) Acquisition Costs	
2.1 Advertising	73,850.69
2.2 Commissions	48,461.63
2.3 Customer Referral Incent	1,722.80
2.4 Marketing Materials	531.12
2.5 New Store Set-up	2,200.70
<b>Total 2) Acquisition Costs</b>	124,566.74
3.0) Operating Expenses	
3.01 Compensation	
4.01) Gross Salaries	109,881.45
4.02) Payroll taxes & benefits	10,836.86
4.03 Performance Bonuses	4,552.93
Contract Labor	4,375.13
4.04 Car allowance	1,000.00
6180 - 4.24) Insurance	
Life Insurance	178.51
6320 - Work Comp	562.22
6180 - 4.24) Insurance - Other	709.53
<b>Total 6180 - 4.24) Insurance</b>	1,450.26
3.01 Compensation - Other	2,112.96
<b>Total 3.01 Compensation</b>	133,788.49
3.03 Travel & entertainment	
6380 - 4.12 Travel	5,227.14
<b>Total 3.03 Travel &amp; entertainment</b>	5,227.14
3.04 Occupancy	
4.12) Office Equip/Furniture	1,011.76
6290 - 4.13) Rent	6,318.87
6310 - 4.38 Building Repairs	29.77
6330 - 4.39 Equipment Repairs	681.71
<b>Total 3.04 Occupancy</b>	8,041.91
3.05 Communications	
4.15) Inbound 800 expenses	8,027.61
4.16) Outbound 800 LD expense	
Cwest LD Charges	4,803.16
<b>Total 4.16) Outbound 800 LD expense</b>	4,803.16
4.17) Telephone system lease	2,677.23
4.18) Total Cell Phones	
4.183) Cell Phone-Pick	71.20
4.184) Cell Phone others	414.42
<b>Total 4.18) Total Cell Phones</b>	485.62
6340 - 4.22) Telephone-Local	531.87

**dPI TeleConnect, LLC**  
**Profit and Loss**  
**October 1999**

11/05/99

	Oct '99
<b>Total 3.05 Communications</b>	<b>16,525.49</b>
<b>3.06 IT</b>	
4.20) Computer Lease HW/SW	851.38
4.21) IT development	
8170 · computer workstations lease	3,273.31
4.21) IT development - Other	220.27
<b>Total 4.21) IT development</b>	<b>3,493.58</b>
4.25) IT Hardware	1,085.34
6320 · 4.39 Computer Repairs	3,558.53
<b>Total 3.06 IT</b>	<b>8,788.93</b>
<b>3.07 Insurance</b>	
6510 · Liability Insurance	711.00
<b>Total 3.07 Insurance</b>	<b>711.00</b>
<b>3.08 Office</b>	
6160 · 4.30 Dues and Subscriptions	958.08
6250 · 4.27) Postage and Delivery	2,697.55
6550 · 4.28) Office Supplies	2,521.59
<b>Total 3.08 Office</b>	<b>6,175.19</b>
<b>3.09 Employment expense</b>	
4.37 Employment ads	355.98
3.09 Employment expense - Other	99.00
<b>Total 3.09 Employment expense</b>	<b>454.98</b>
<b>3.10 Other</b>	
6540 · 4.41 Miscellaneous	110.00
3.10 Other - Other	25.00
<b>Total 3.10 Other</b>	<b>135.00</b>
<b>6270 · 3.02) Professional Fees</b>	
4.07 Payroll service ADP	397.12
4.08 Legal fees	2,095.21
6230 · 4.09 Licenses	23,450.73
6570 · 4.05 Accounting	1,193.25
6580 · 4.06 Consulting	2,251.19
<b>Total 6270 · 3.02) Professional Fees</b>	<b>29,387.50</b>
<b>Total 3.0) Operating Expenses</b>	<b>209,236.61</b>
8150 · Depreciation Expense	2,870.00
6999 · Uncategorized Expenses	0.00
<b>Total Expense</b>	<b>635,919.27</b>
<b>Net Ordinary Income</b>	<b>-180,636.63</b>
<b>Other Income/Expense</b>	
<b>Other Income</b>	
7010 · Interest Income	820.91
<b>Total Other Income</b>	<b>820.91</b>
<b>Net Other Income</b>	<b>820.91</b>
<b>Net Income</b>	<b>-180,015.72</b>

**dPI TeleConnect, LLC**  
**Profit and Loss**  
 January through October 1999

	Jan - Oct '99
<b>Ordinary Income/Expense</b>	
<b>Income</b>	
<b>New Service</b>	
1-New Service Income	768,844.70
Refund - New Service	-27,882.27
<b>Total New Service</b>	740,962.43
<b>2-Recurring Service Income</b>	600,323.55
4980 - Misc. Income	78.00
<b>Total Income</b>	1,341,363.98
<b>Gross Profit</b>	1,341,363.98
<b>Expense</b>	
<b>1) Projected Cost of Sales</b>	
1.1 New Service Network Expense	514,798.20
1.2 Recurring Service Network	210,113.20
1.4 Taxes due to agencies	154,809.74
<b>Total 1) Projected Cost of Sales</b>	879,721.14
<b>2) Acquisition Costs</b>	
2.1 Advertising	421,522.08
2.2 Commissions	137,227.86
2.3 Customer Referral Incent	1,722.60
2.4 Marketing Materials	23,701.09
2.5 New Store Set-up	26,305.61
New Business Development	34,206.34
2) Acquisition Costs - Other	250.00
<b>Total 2) Acquisition Costs</b>	644,935.58
<b>3.0) Operating Expenses</b>	
<b>3.01 Compensation</b>	
4.01) Gross Salaries	
Jason Pick loan	0.00
4.01) Gross Salaries - Other	615,361.31
<b>Total 4.01) Gross Salaries</b>	615,361.31
4.02) Payroll taxes & benefits	67,244.97
4.03 Performance Bonuses	13,412.14
Contract Labor	4,375.19
4.04 Car allowance	11,500.00
4.33 Relocation expenses	366.54
6180 - 4.24) Insurance	
Life Insurance	892.55
6520 - Work Comp	2,447.09
6180 - 4.24) Insurance - Other	2,423.65
<b>Total 6180 - 4.24) Insurance</b>	5,763.29
6500 - 4.36) Contract Labor	0.00
3.01 Compensation - Other	2,112.96
<b>Total 3.01 Compensation</b>	720,138.34
<b>3.03 Travel &amp; entertainment</b>	
6360 - 4.10 Entertainment	734.80
6370 - 4.11 Meals	2,810.35
6380 - 4.12 Travel	54,561.55
<b>Total 3.03 Travel &amp; entertainment</b>	58,106.70
<b>3.04 Occupancy</b>	
4.12) Office Equip/Furniture	6,886.83
4.35 Moving expense	1,068.60
6290 - 4.13) Rent	65,419.93
6310 - 4.38 Building Repairs	608.91
6320 - 4.39 Equipment Repairs	691.71
<b>Total 3.04 Occupancy</b>	74,665.98
<b>3.05 Communications</b>	
4.15) Inbound 800 expenses	43,892.15

**dPI TeleConnect, LLC**  
**Profit and Loss**  
 January through October 1999

11/05/99

	Jan - Oct '99
4.16) Outbound 800 LD expense Gwest LD Charges	24,948.38
<b>Total 4.16) Outbound 800 LD expense</b>	<b>24,948.38</b>
4.17) Telephone system lease	16,887.36
4.18) Total Cell Phones	
4.181) Cell phone-Pikoff	1,277.03
4.182) Cell phone-Dowart	2,368.09
4.183) Cell Phone-Pick	499.33
4.184) Cell Phone others	922.01
<b>Total 4.18) Total Cell Phones</b>	<b>5,066.46</b>
4.23) Outbound LD expenses	2,915.12
6340 · 4.22) Telephone-Local	21,381.55
<b>Total 3.05 Communications</b>	<b>115,089.02</b>
<b>3.05 IT</b>	
4.20) Computer Lease HW/SW	10,114.40
4.21) IT development	
8170 · computer workstations lease	11,764.62
4.21) IT development - Other	5,851.12
<b>Total 4.21) IT development</b>	<b>17,615.74</b>
4.25) IT Hardware	17,503.00
6320 · 4.39 Computer Repairs	5,017.12
3.08 IT - Other	79.90
<b>Total 3.05 IT</b>	<b>51,330.16</b>
<b>3.07 Insurance</b>	
6510 · Liability Insurance	4,415.00
3.07 Insurance - Other	894.42
<b>Total 3.07 Insurance</b>	<b>5,309.42</b>
<b>3.08 Office</b>	
4.31 Miscellaneous	1,415.38
6120 · 4.32 Bank Service Charges	1,769.38
6180 · 4.30 Dues and Subscriptions	3,805.73
6250 · 4.27) Postage and Delivery	18,739.16
6260 · 4.28) Printing and Reproduction	2,180.27
6280 · 4.26) Office Supplies	22,473.02
<b>Total 3.08 Office</b>	<b>50,382.94</b>
<b>3.09 Employment expenses</b>	
Employment - Other	442.00
4.37 Employment ads	4,989.48
3.09 Employment expense - Other	99.00
<b>Total 3.09 Employment expense</b>	<b>5,530.49</b>
<b>3.10 Other</b>	
4.42 Other taxes	2,451.32
6340 · 4.41 Miscellaneous	110.00
6010 · 4.40) Other Expenses	3,333.81
3.10 Other - Other	25.00
<b>Total 3.10 Other</b>	<b>5,920.13</b>
6270 · 3.02) Professional Fees	
4.07 Payroll service ADP	1,869.78
4.08 Legal fees	58,187.78
6230 · 4.08 Licenses	94,908.42
6570 · 4.05 Accounting	4,484.85
6580 · 4.08 Consulting	34,937.32
<b>Total 6270 · 3.02) Professional Fees</b>	<b>184,376.15</b>
<b>Total 3.0) Operating Expenses</b>	<b>1,280,847.23</b>
6150 · Depreciation Expense	20,413.52
6200 · Interest Expense	2,000.00
6999 · Uncategorized Expenses	0.00

**dPi TeleConnect, LLC**  
**Profit and Loss**  
**January through October 1999**

	<u>Jan - Oct '99</u>
Total Expense	2,827,917.47
Net Ordinary Income	-1,486,553.49
Other Income/Expense	
Other Income	
7010 - Interest Income	9,609.87
Total Other Income	9,609.87
Net Other Income	9,609.87
Net Income	<u>-1,476,943.62</u>

**dPi TeleConnect, LLC**  
**Balance Sheet**  
 As of October 31, 1999

	Cct 31, '99
<b>ASSETS</b>	
<b>Current Assets</b>	
Checking/Savings	
Checking Acct, Nations Bank	239,782.88
Total Checking/Savings	239,782.88
Accounts Receivable	
1200 - Accounts Receivable	212,674.44
Total Accounts Receivable	212,674.44
<b>Other Current Assets</b>	
Advances	55.84
Other current assets	2,705.17
Pre-Paid Expenses	2,000.00
Prepaid equipment rental	12,972.90
Prepaid rent	88.73
Total Other Current Assets	17,832.44
<b>Total Current Assets</b>	470,289.74
<b>Fixed Assets</b>	
Computer-Dell Inspiron 7000	
Depreciation	-237.00
Original Cost	2,844.00
Total Computer-Dell Inspiron 7000	2,607.00
Computer system	
Accumulated depreciation	-13,010.74
Computer system - Other	145,092.85
Total Computer system	132,081.91
Furniture	1,086.26
Office equipment	
Accumulated depreciation	-301.20
Office equipment - Other	10,139.79
Total Office equipment	9,838.59
YONIX Software	
Accumulated depreciation	-8,884.58
YONIX Software - Other	119,837.24
Total YONIX Software	112,972.88
<b>Total Fixed Assets</b>	258,566.42
<b>Other Assets</b>	
Deposits	71,281.14
Security Bond Collateral	45,000.00
Total Other Assets	116,281.14
<b>TOTAL ASSETS</b>	845,137.30
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts Payable	
2000 - Accounts Payable	443,802.58
Total Accounts Payable	443,802.58
<b>Other Current Liabilities</b>	
Health Plan	1,014.00
Payroll	40,923.14
Accrued expenses	224,332.25
Fed withholdings	6,288.15
FICA	8,708.11
FED disability insurance	146.36
STATE disability insurance	554.70
Total Other Current Liabilities	279,985.70

**dPI TeleConnect, LLC**  
**Balance Sheet**  
**As of October 31, 1999**

	<u>Oct 31, '99</u>
<b>Total Current Liabilities</b>	<b>723,768.28</b>
<b>Long Term Liabilities</b>	
Bank of America Secured Loan	103,148.24
<b>Total Long Term Liabilities</b>	<u><b>103,148.24</b></u>
<b>Total Liabilities</b>	<b>826,914.52</b>
<b>Equity</b>	
Contributions - Koch	1,500,000.00
Contributions - Others	100,000.00
1110 - Retained Earnings	-104,833.80
Net Income	<u>-1,478,843.62</u>
<b>Total Equity</b>	<u><b>18,222.78</b></u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u><b>845,137.30</b></u></u>

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**EXHIBIT D**



The Right Way. Right Away. <sup>SM</sup>

One Rentway Place • Erie, PA 16505

814-455-5378 • fax 814-455-0078 • www.rentway.com • NYSE: RWY

To Whom It May Concern:

RE: dPi-Teleconnect, L.L.C. ("dPi")

Dear Sir or Madam:

Rent-Way, Inc. ("Rent-Way") has entered into a Purchase Agreement to acquire all of Koch Ventures, Inc.'s interest in dPi-Teleconnect, L.L.C. ("dPi") and nine percent (9%) of dPi Holdings, Inc.'s interest. Subject to approval by the various state's regulatory commissions, Rent-Way also has an agreement to acquire an additional eleven percent (11%) of dPi Holdings, Inc.'s interest in dPi, which would bring its total interest in dPi to sixty percent (60%).

Under the terms of the Purchase Agreement, Rent-Way has agreed to provide at least 3 Million Dollars in capital to dPi on an as needed basis, and has the option of providing additional funds at its discretion.

If you have any questions, please contact me at 814/455-5378.

Respectfully submitted,

Rent-Way, Inc.

By:

  
\_\_\_\_\_  
William E. Morgenstern, Chairman/CEO

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EXHIBIT E

U. S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 1999

[ ] 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: 0-22026

RENT-WAY, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania (State of incorporation) 25-1407782 (I.R.S. Employer Identification No.)

One RentWay Place, Erie, Pennsylvania 16505 (Address of principal executive offices)

814-455-5378 (Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class Name of Exchange on Which Registered
Common Stock, no par value New York Stock Exchange, Inc.

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

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 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. [ ]

Based on the closing sales price on December 6, 1999, the aggregate market value of stock held by non-affiliates of the registrant was \$372,103,705.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

CLASS OUTSTANDING AS OF DECEMBER 6, 1999
Common Stock 21,984,041

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for the annual meeting of shareholders to be held March 8, 2000 are incorporated by reference into Part III of this Form 10-K

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# RENT-WAY, INC.

## PART I

### ITEM I BUSINESS

#### General

Rent-Way, Inc. (the "Company" or "Rent-Way") is the second largest operator in the rental purchase industry with 1,114 stores in 41 states. The Company offers home entertainment equipment, furniture, major appliances and jewelry to customers under full-service rental-purchase agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed upon rental period. Management believes that these rental-purchase arrangements appeal to a wide variety of customers by allowing them to obtain merchandise that they might otherwise be unable or unwilling to obtain due to insufficient cash resources or lack of access to credit or because they have a temporary, short-term need for the merchandise or a desire to rent rather than purchase the merchandise.

The Company's principal executive offices are located at One RentWay Place, Erie, Pennsylvania 16505, and its telephone number is (814) 455-5378.

On December 10, 1998, the Company completed a merger (the "Merger") with Home Choice Holdings, Inc. ("HMCH" or "Home Choice"). The Merger, as per the terms of the agreement, was recorded as a pooling of interests, in accordance with Accounting Principles Board ("APB") Opinion No. 16. Under the terms of the agreement the Company issued 0.588 shares of common stock for each outstanding share of HMCH common stock. The Merger increased the outstanding shares of the Company by approximately 10,025,000 shares. HMCH, at the time of the Merger, operated 458 stores in 26 states, primarily in the southeastern, midwestern, and southwestern portions of the United States, with annual revenues of approximately \$260 million. As a result of the Merger, the Company became the second largest company in the rental-purchase industry.

On February 26, 1998, Home Choice (formerly Alrengo, Inc.) merged with RTO, Inc. The merger, as per the terms of the agreement, was recorded as a pooling of interests, in accordance with APB Opinion No. 16. Under the terms of the agreement, Home Choice issued 0.898 shares of common stock for each outstanding share of RTO common stock.

Prior to the mergers, the management of the Company, Alrengo, and RTO grew their operations through diverse strategies.

#### *Rent-Way Acquisitions*

Rent-Way was formed in 1981 to operate a rental-purchase store in Erie, Pennsylvania. In 1993, as a result of acquisitions and new store openings, the Company was operating 19 stores in three states and had completed its initial public offering. In 1994, the Company acquired 20 rental-purchase stores through its acquisition of D.A.M.S.L. Corporation. In 1995, the Company acquired 50 rental-purchase stores, 46 through the acquisition of McKenzie Leasing Corporation. In 1996, the Company acquired 32 rental-purchase stores in four separate transactions. In 1997, the Company acquired 92 rental-purchase stores, 70 of which were acquired from Perry Electronics, Inc. d/b/a Rental King. In 1998, the Company acquired 226 rental-purchase stores, 50 of which were acquired from Ace Rentals and 145 of which were acquired from Champion Rentals, Inc. The Company also opened 13 new stores in 1998.

#### *Alrengo Acquisitions*

Alrengo grew primarily through the opening of new stores from its inception in 1980 through 1990. During the period from 1990 to 1993, management focused its efforts on improving the performance of its existing stores. As a result, Alrengo increased its revenue from \$16.3 million to \$22.3 million, operating profit from \$0.9 million to \$2.0 million, and net earnings from \$0.1 million to \$1.0 million. In 1994, Alrengo acquired 18 rental-purchase stores. In 1995, Alrengo acquired 15 stores. In 1996, Alrengo acquired 75 stores in 23 separate transactions. In 1997, Alrengo acquired 54 stores and 13 rental-purchase portfolios in 19 separate transactions.

#### *RTO Acquisitions*

RTO was incorporated on June 20, 1996 and since that time it has aggressively sought to establish its store base through multiple significant store acquisitions, new store openings, and smaller store acquisitions. In 1996, RTO purchased 109 stores, 102 of which were acquired from Action TV & Appliance Rentals, Inc. In 1997, RTO acquired 73 stores in a series of transactions. In 1996 and 1997, RTO acquired 59 stores in transactions accounted for as a pooling-of-interests. Also in 1997, RTO opened 34 new stores. From January 1, 1998 until March 31, 1998, RTO opened eight additional stores.

## Fiscal 1999 Acquisitions

On June 30, 1999, the Company acquired America's Rent-To-Own Center, Inc. ("America's Rent-To-Own"). The transaction value was approximately \$7 million and was paid for with a combination of 231,140 shares of Rent-Way's common stock and the assumption of certain liabilities. America's Rent-To-Own operated 21 rental-purchase stores in Arkansas, Kansas, Missouri, and Oklahoma and had annual revenues of approximately \$8 million.

On September 23, 1999, the Company acquired all of the stock of RentaVision, Inc. ("RentaVision") for a purchase price of approximately \$74 million, which was paid for with a combination of \$69 million in cash and 278,801 shares of Rent-Way's common stock and the assumption of certain liabilities. RentaVision operated a chain of 250 rental-purchase stores in 16 states, 50 of which have been opened during the past year, with annual revenues of approximately \$75 million.

## The Rental-Purchase Industry

Begun in the mid-to-late 1960s, the rental-purchase business is a relatively new segment of the retail industry offering an alternative to traditional retail installment sales. The rental-purchase industry provides brand name merchandise to customers generally on a week-to-week or month-to-month basis under a full service rental agreement, which in most cases includes a purchase option. The customer may cancel the rental agreement at any time without further obligation by returning the product to the rental-purchase operator.

The Association of Progressive Rental Organizations ("APRO"), the industry's trade association, estimated that at the end of 1998 the U.S. rental-purchase industry comprised approximately 8,000 stores providing 7.5 million products to 3.3 million households. Management believes that its customers generally have annual household incomes ranging from \$20,000 to \$40,000. Based on APRO estimates, the rental-purchase industry had gross revenues of \$4.7 billion in 1998. The U.S. rental-purchase industry is highly fragmented, but is experiencing increasing consolidation. Based on APRO estimates, management believes that the ten largest industry participants account for approximately 50% of total industry stores and that the majority of the remaining portion of industry consists of operations with fewer than 20 stores. See "—Strategy"; "—Competition."

Management believes that the rental-purchase industry is experiencing increasing consolidation due to, among other factors, the recognition by smaller operators of the increased operating efficiencies and better competitive position achievable by combining with larger operators, greater availability of capital for larger operators, and the willingness of older operators to sell as a means of resolving business succession issues. Management believes that this trend toward consolidation of operations in the industry presents an opportunity for well-capitalized rental-purchase operators to continue to acquire additional stores on favorable terms.

## Strategy

Management believes that the Company's continued success depends on successful implementation of the following business strategies:

### *Acquiring and Opening New Stores*

The Company currently intends to expand its operations by acquiring existing stores and opening new stores, both within its present market areas and in geographic regions not currently served by the Company. At present, the majority of that expansion is expected to be accomplished through acquisitions. The Company believes that acquisitions can effectively increase the Company's market share while simultaneously expanding its customer base. In addition, in pursuing its growth strategies, the Company expects to benefit from both enhanced purchasing power and the ability to leverage economies of scale for certain operating expenses.

The Company continually reviews acquisition opportunities, and management believes that a number of acquisition opportunities currently exist. The Company presently has no plans, proposals, arrangements or understandings with respect to significant acquisitions. In identifying targets for acquisition, the Company intends to focus on operations that complement the Company's existing markets, while remaining open to the possibility of making acquisitions in other areas. The Company has not established formal criteria for potential acquisitions. Generally, however, the Company seeks to acquire rental-purchase businesses that operate profitably and are located in geographic markets that complement the Company's existing stores or that the Company views as growth markets for the rental-purchase industry. The Company seeks to acquire such businesses at purchase prices that will permit the Company a prompt return on its investment in the form of increased earnings. The Company has no formal policy with respect to acquisitions with related entities. To date, no related party acquisitions have been considered nor does the Company anticipate considering such acquisitions in the future. Management believes that senior management's ability and experience provides the Company with a competitive advantage in the evaluation and consummation of acquisition opportunities.

Following consummation of an acquisition, the Company appoints a dedicated team to oversee and monitor the integration of the acquired stores, including determining staffing, store merchandise and facility needs, budgets and performance goals. All acquired

stores are promptly evaluated and, if necessary, remodeled. Management seeks to integrate acquired stores and the management information system of such stores within one to three months following an acquisition. The Company completed the integration of the 250 RentaVision stores acquired on September 23, 1999 by November 11, 1999.

In addition, in May 1999 the Company announced a new store opening plan designed to complement its acquisition strategy. The Company plans to open an additional 40-60 stores in the next twelve months. The new store openings will occur in under-served markets near existing locations to leverage field operating strength and advertising efficiencies. In fiscal 1999, the Company opened 12 new stores and hopes to have opened a total of 21 new stores for the 15 month period ending December 31, 1999.

#### *Customer-Focused Philosophy*

Management believes that through the continued adherence to its "Welcome, Wanted and Important" business philosophy, it should be able to increase its new and repeat customer base, and thus the number of units it has on rent, thereby increasing revenues and net income. The "Welcome, Wanted and Important" philosophy is a method by which the Company seeks to create a store atmosphere conducive to customer loyalty. The Company attempts to create this atmosphere through the effective use of advertising and merchandising strategies, by maintaining the clean and well-stocked appearance of its stores and by providing a high level of customer service (such as the institution of a toll-free 1-800-RENTWAY complaint and comment line). The Company's advertising emphasizes brand name merchandise from leading manufacturers. In addition, merchandise selection within each product category is periodically updated to incorporate the latest offerings from suppliers. Services provided by the Company to the customer include home delivery, installations, ordinary maintenance and repair services and pick-up during the term of the contract at no additional charge. Store managers also work closely with each customer in choosing merchandise, setting delivery dates and arranging a suitable payment schedule. As part of the "Welcome, Wanted and Important" philosophy, store managers are empowered, encouraged and trained to make decisions regarding store operations subject only to certain Company-wide operating guidelines and general policies.

#### *Expanding the Company's Product Lines*

One of the Company's principal strategies is to provide the rental-purchase customer with the opportunity to obtain merchandise of a higher quality than the merchandise available from its competitors on competitive terms. To this end, the Company attempts to maintain a broad selection of products while emphasizing better quality, higher priced merchandise. The Company intends to continue expanding its offerings of better quality, higher priced products in all product areas. Management believes that previous offerings of these products have succeeded in both increasing the Company's profitability and attracting new customers to the Company's existing stores. In addition, the Company selectively tests new merchandise and services. During the last quarter of the 1999 fiscal year, a new program focusing on Compaq personal computers was implemented. In addition, the Company has begun to act as an agent to provide prepaid phone service through a third party. This program is currently being tested on a limited basis. Management believes that opportunities exist to provide additional non-traditional merchandise to its customers.

#### *Monitoring Store Performance*

The Company's management information system allows each store manager to track rental and collection activity on a daily basis. The system generates detailed reports that track inventory movement by piece and by product category and the number and frequency of past due accounts and other collection activity. Physical inventories are regularly conducted at each store to ensure the accuracy of the management information system data. Senior management monitors this information to ensure adherence to established operating guidelines. In addition, each store is provided with a monthly profit and loss statement to track store performance. Management believes the Company's management and accounting information systems enhance its ability to monitor and affect the operating performance of existing stores and to integrate and improve the performance of newly acquired stores.

#### *Results-Oriented Compensation*

Management believes that an important reason for the Company's positive financial performance and growth has been the structure of its management compensation system. A significant portion of the Company's regional and store managers' total compensation is dependent upon store performance. Regional and store managers earn incentives by increasing both store revenues and operating profits. As further incentive, the Company grants managers stock options. Management believes that the Company's emphasis on incentive-based compensation is instrumental in the Company's ability to attract, retain, and motivate its regional and store managers.

#### *Manager Training and Empowerment*

The Company employs four full-time trainers who conduct classroom programs in the areas of sales, store operations and personnel management. These training programs often continue for several months and culminate in an exam. The Company requires its managers to attend, at Company expense, leadership and management programs offered by leading management and organization experts. The Company empowers its store managers by permitting them to make significant decisions involving store operations including personnel, merchandise, and collection decisions. Management believes that well-trained and empowered store managers

are important to the Company's efforts to maximize individual store performance.

## Operations

### Company Stores

As of September 30, 1999, the Company operates 1,114 stores in 41 states as follows:

<u>Location</u>	<u>Number of Stores</u>	<u>Location</u>	<u>Number of Stores</u>	<u>Location</u>	<u>Number of Stores</u>	<u>Location</u>	<u>Number of Stores</u>
Texas.....	124	Arkansas.....	37	Mississippi.....	12	Washington.....	4
Florida.....	97	Kentucky.....	36	Nebraska.....	12	Rhode Island...	3
New York.....	84	Virginia.....	33	Kansas.....	11	Utah.....	3
Pennsylvania.....	73	Michigan.....	28	New Mexico.....	10	South Dakota...	2
Ohio.....	63	Alabama.....	23	New Hampshire...	9	Idaho.....	1
South Carolina..	61	Oklahoma.....	16	Nevada.....	7		
North Carolina..	45	Arizona.....	15	Vermont.....	7		
Indiana.....	43	Massachusetts...	15	West Virginia.....	7		
Louisiana.....	41	Maryland.....	15	Iowa.....	6		
Tennessee.....	41	Maine.....	13	Connecticut.....	5		
Georgia.....	40	Missouri.....	13	Delaware.....	5		
Illinois.....	38	Colorado.....	12	California.....	4		

The Company's stores average approximately 3,500 square feet in floor space and are generally located in strip shopping centers in or near low to middle income neighborhoods. Often, such shopping centers offer convenient free parking to the Company's customers. The Company's stores are generally uniform in interior appearance and design and display of available merchandise. The stores have separate storage areas, but generally do not use warehouse facilities. In selecting store locations, the Company uses a variety of market information sources to locate areas of a town or city that are readily accessible to low and middle income consumers. The Company believes that within these areas, the best locations are in neighborhood shopping centers that include a supermarket. The Company believes this type of location makes frequent rental payments at its stores more convenient for its customers. Generally, the Company refurbishes its stores every two to five years.

### Product Selection

The Company offers brand name home entertainment equipment (such as television sets, VCRs, camcorders and stereos), furniture, major appliances and jewelry. Major appliances offered by the Company include refrigerators, ranges, washers and dryers. The Company's product line currently includes the Zenith, RCA, Pioneer, JVC, Sharp and Panasonic brands in home entertainment equipment, the Kenmore, Crosley and General Electric brands in major appliances and the Ashley and New England Corsair brand in furniture. In June 1999, the Company added Compaq computers to its product line. The Company closely monitors customer rental requests and adjusts its product mix to offer rental merchandise desired by customers.

For the year ended September 30, 1999, payments under rental-purchase contracts for home entertainment products accounted for approximately 40.7%, furniture for 28.3%, appliances for 26.5%, jewelry for 3.9% and other items for 0.6% of the Company's rental revenues. Customers may rent either new merchandise or previously rented merchandise. Weekly rentals currently range from \$14.99 to \$39.99 for home entertainment equipment, from \$9.99 to \$39.99 for furniture, from \$9.99 to \$29.99 for major appliances and from \$6.99 to \$19.99 for jewelry. Previously rented merchandise is typically offered at the same weekly or monthly rental rate as is offered for new merchandise, but with an opportunity to obtain ownership of the merchandise after fewer rental payments.

### Rental-Purchase Agreements

Merchandise is provided to customers under written rental-purchase agreements that set forth the terms and conditions of the transaction. The Company uses standard form rental-purchase agreements which are reviewed by legal counsel and customized to meet the legal requirements of the various states in which they are to be used. Generally, the rental-purchase agreement is signed at the store, but may be signed at the customer's residence if the customer orders the product by telephone and requests home delivery. Customers rent merchandise on a week-to-week and, to a lesser extent, on a month-to-month basis with rent payable in advance. At the end of the initial and each subsequent rental period, the customer retains the merchandise for an additional week or month by paying the required rent or may terminate the agreement without further obligation. If the customer decides to terminate the agreement, the merchandise is returned to the store and is then available for rent to another customer. The Company retains title to the merchandise during the term of the rental-purchase agreement. If a customer rents merchandise for a sufficient period of time, usually 12 to 24 months, ownership is transferred to the customer without further payments being required. Rental payments are typically made in cash or by check or money order. The Company does not extend credit. See "—Government Regulation."

## *Product Turnover*

Generally, a minimum rental term of between 12 and 24 months is required to obtain ownership of new merchandise. Based upon merchandise returns for the year ended September 30, 1999, the Company believes that the average period of time during which customers rent merchandise is 16 to 17 weeks. However, turnover varies significantly based on the type of merchandise being rented, with certain consumer electronic products, such as camcorders and VCRs, generally being rented for shorter periods, while appliances and furniture are generally rented for longer periods. Each rental-purchase transaction requires delivery and pickup of the product, weekly or monthly payment processing and, in some cases, repair and refurbishment of the product. In order to cover the relatively high operating expenses generated by greater product turnover, rental-purchase agreements require larger aggregate payments than are generally charged under installment purchase or credit plans.

## *Customer Service*

The Company offers same day delivery, installation and pick-up of its merchandise at no additional cost to the customer. The Company also provides any required service or repair without charge, except for damage in excess of normal wear and tear. If the product cannot be repaired at the customer's residence, the Company provides a temporary replacement while the product is being repaired. The customer is fully liable for damage, loss or destruction of the merchandise, unless the customer purchases an optional loss/damage waiver. Most of the products offered by the Company are covered by a manufacturer's warranty for varying periods, which, subject to the terms of the warranty, is transferred to the customer in the event that the customer obtains ownership. Repair services are provided through in-house service technicians, independent contractors or under factory warranties. The Company offers Rent-Way Plus, a fee-based membership program that provides special loss and damage protection and an additional one year of service protection on rental merchandise, preferred treatment in the event of involuntary job loss, accidental death and dismemberment insurance and discounted emergency roadside assistance, as well as other discounts on merchandise and services.

## *Collections*

Management believes that effective collection procedures are important to the Company's success. The Company's collection procedures increase the revenue per product with minimal associated costs, decrease the likelihood of default and reduce charge-offs. Senior management, as well as store managers, use the Company's computerized management information system to monitor cash collections on a daily basis. In the event a customer fails to make a rental payment when due, store management will attempt to contact the customer to obtain payment and reinstate the contract or will terminate the account and arrange to regain possession of the merchandise. However, store managers are given latitude to determine the appropriate collection action to be pursued based on individual circumstances. Depending on state regulatory requirements, the Company charges for the reinstatement of terminated accounts or collects a delinquent account fee. Such fees are standard in the industry and may be subject to state law limitations. See "—Government Regulation." Despite the fact that the Company is not subject to the federal Fair Debt Collection Practices Act, it is the Company's policy to abide by the restrictions of such law in its collection procedures. If an item on rent is not returned or payment thereon is not received within 90 days of its due date, the Company's policy is to charge-off the item. Charge-offs due to lost or stolen merchandise were approximately 2.9%, 3.1% and 3.4% of the Company's revenues for the years ended September 30, 1999, 1998, and 1997, respectively. The charge-off rate for chains with over 40 stores reporting to APRO in 1998 was 3.3%.

## *Management*

The Company's stores are organized geographically with several levels of management. At the individual store level, each store manager is responsible for customer relations, deliveries and pickups, inventory management, staffing and certain marketing efforts. A Company store normally employs one store manager, one assistant manager, two account managers, one full-time office manager and one full-time delivery and installation technician. The staffing of a store depends on the number of rental-purchase contracts serviced by the store.

Each store manager reports to one regional manager, each of whom typically oversees six to eight stores. Regional managers are primarily responsible for monitoring individual store performance and inventory levels within their respective regions. The Company's regional managers, in turn, report to directors of operations, who monitor the operations of their regions and through their regional managers, individual store performance. The directors of operations report to one of five Divisional Vice Presidents who monitor the overall operations of their assigned geographic area. The Divisional Vice Presidents report to the Vice President-Operations who is responsible for overall Company-wide store operations. Senior management at the Company's headquarters directs and coordinates purchasing, financial planning and controls, management information systems, employee training, personnel matters and acquisitions. Headquarters personnel also evaluate the performance of each store.

## Management Information System

The Company believes that its proprietary management information system provides it with a competitive advantage over many small rental-purchase operations. The Company uses an integrated computerized management information and control system to track each unit of merchandise and each rental-purchase agreement. The Company's system also includes extensive management software and report generating capabilities. Reports for all stores are reviewed daily by senior management and any irregularities are addressed the following business day. Each store has the ability to track individual components of revenue, idle items, items on rent, delinquent accounts and other account information. Management electronically gathers each day's activity report. Company management has access to operating and financial information about any store location or region in which the Company operates and generates management reports on a daily, weekly, month-to-date and year-to-date basis. Utilizing the management information system, senior management, regional managers and store managers can closely monitor the productivity of stores under their supervision compared to Company-prescribed guidelines. This system has enabled the Company to expand its operations while maintaining a high degree of control over cash receipts, rental merchandise, and merchandise units in repair. The Company completed the management information system integration of all stores acquired in the Home Choice merger by March 31, 1999 and all stores acquired in the America's Rent-To-Own acquisition by July 31, 1999. The management information system integration and conversion of all the stores from the RentaVision acquisition was complete by November 11, 1999. While the Company believes its management information system is adequate to meet its needs for the foreseeable future, it continues to upgrade the system over time. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations, Year 2000 Issues".

## Purchasing and Distribution

The Company's general product mix is determined by senior management, based on an analysis of customer rental patterns and introduction of new products on a test basis. Individual store managers are responsible for determining the particular product selection for their store from a list of products approved by senior management. All purchase orders are executed through regional managers and the Company's purchasing department to insure that inventory levels and mix throughout the store regions are appropriate. Merchandise is generally shipped by vendors directly to each store, where it is held for rental. The Company purchases its merchandise directly from manufacturers or distributors. The Company generally does not enter into written contracts with its suppliers. Although the Company currently expects to continue its existing relationships, management believes there are numerous sources of products available to the Company, and does not believe that the success of the Company's operations is dependent on any one or more of its present suppliers.

## Marketing and Advertising

The Company promotes its products and services through targeted direct mail, spot and national television advertising and, to a lesser extent, through radio and secondary print media advertisement. The Company also solicits business by telephoning former and prospective customers. The Company is dedicating an increasing percentage of its marketing dollars to television advertising to build brand recognition in markets where it is economically attractive to do so. The Company's print advertisements emphasize product and brand name selection, prompt delivery and repair, and the absence of any downpayment, credit investigation or long-term obligation. Advertising expense as a percentage of revenue for the years ended September 30, 1999, 1998 and 1997 were 4.7%, 5.4% and 5.6%, respectively. In addition to the Company's national advertising efforts, a good deal of emphasis has been placed on the development of a local store marketing plan to allow the stores to leverage market specific knowledge. As the Company obtains new stores in its existing markets, the advertising expenses of each store in the market can be reduced by listing all stores in the same market-wide advertisement. In addition, the Company participates in cooperative advertising programs with many of its major vendors.

## Competition

The rental-purchase industry is highly competitive. The Company competes with other rental-purchase businesses and, to a lesser extent, with rental stores that do not offer their customers a purchase option. Competition is based primarily on rental rates and terms, product selection and availability, and customer service. With respect to consumers who are able to purchase a product for cash or on credit, the Company also competes with department stores, discount stores and retail outlets that offer an installment sales program or offer comparable products and prices. The Company is the second largest operator in the rental-purchase industry, second only to Rent-A-Center. Rent-A-Center is national in scope and has significantly greater financial and operating resources and name recognition than does the Company.

## Personnel

As of September 30, 1999, the Company had approximately 5,617 employees, of whom 202 are located at the corporate office in Erie, Pennsylvania. None of the Company's employees are represented by a labor union. Management believes its relations with its employees are good.

## **Government Regulation**

Forty-six states have adopted legislation regulating or otherwise impacting the rental-purchase transaction. These laws generally require certain contractual and advertising disclosures concerning the nature of the transaction and also provide varying levels of substantive consumer protection, such as requiring a grace period for late payments and contract reinstatement rights in the event the agreement is terminated for nonpayment.

Recent court decisions in Minnesota, New Jersey, and Wisconsin have created a legal environment in those states which is prohibitive to rental-purchase transactions. The Company does not operate in those states. The majority of the states in which the Company operates impose some type of disclosure requirements, either in advertising or in the rental-purchase agreement, or both. The regulations in these states also distinguish rental-purchase transactions from credit sales. Management believes that its operations are in material compliance with applicable state rental-purchase laws.

No federal legislation has been enacted regulating the rental-purchase transaction. The Company instructs its managers in procedures required by applicable law through training seminars and policy manuals and believes that it has operated in compliance with the requirements of applicable law in all material respects.

Management believes that in the unlikely event federal legislation is enacted regulating rental-purchase transactions as credit sales, the Company would be able to adapt to the new laws and remain profitable by repositioning itself as a rent-to-rent business.

## **Service Marks**

The Company has registered the "Rent-Way" service mark under the Lanham Act. The Company believes that this mark has acquired significant market recognition and goodwill in the communities in which its stores are located. The service mark "Rent-Way Because There's Really Only One Way" and "RentWay - the Right Way" and the related designs have also been registered by the Company. The Company has also prepared applications to register the following service marks: "RentWay. The Right Way. Right Away.", "Lifetime Reinstatement", and "We're Changing the Way America Rents". In connection with the Home Choice merger, the Company acquired the "Home Choice" service mark, which is registered under the Lanham Act.

## **Related Party Transactions**

Although the Company has in the past and may in the future enter into transactions with related parties, the Company has adopted no formal policies, procedures or controls with respect to such transactions. Generally, however, the Company requires that any transactions with related entities be on terms no less favorable to the Company than would be available from an unrelated third party.

## ITEM 2 DESCRIPTION OF PROPERTIES

The Company leases all of its store facilities under operating leases that generally have terms of three to five years and require the Company to pay real estate taxes, utilities and maintenance. The Company has optional renewal privileges on most of its leases for additional periods ranging from three to five years at rental rates generally adjusted for increases in the cost of living. There is no assurance that the Company can renew the leases that do not contain renewal options, or that if it can renew them, that the terms will be favorable to the Company. Management believes that suitable store space is generally available for lease and that the Company would be able to relocate any of its stores without significant difficulty should it be unable to renew a particular lease. Management also expects that additional space will be readily available at competitive rates for new store openings. The Company's main corporate offices are in Erie, Pennsylvania and consist of three buildings of approximately 34,000, 11,000, and 10,000 square feet. In addition, the Company leases administrative offices in Dallas, Texas, Daytona, Florida, Lexington, Kentucky, and Raleigh, North Carolina. The Company also owns an office building in Erie, Pennsylvania, which is used for record retention.

## ITEM 3 LEGAL PROCEEDINGS

From time to time the Company is a party to various legal proceedings arising in the ordinary course of its business. The Company is not currently a party to any material litigation.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the New York Stock Exchange under the symbol "RWY." The Company began trading on the New York Stock Exchange on October 8, 1998. The Company's common stock was previously traded on the NASDAQ National Market under the symbol "RWAY". The following table sets forth, for the periods indicated, the high and low sales prices per share of the Common Stock as reported on the NASDAQ National Market and the New York Stock Exchange.

	Year Ended September 30, 1999		Year Ended September 30, 1998	
	High	Low	High	Low
First Quarter.....	\$28.00	\$17.50	\$20.50	\$15.75
Second Quarter..	27.88	21.38	24.75	17.31
Third Quarter.....	29.44	20.50	33.63	25.13
Fourth Quarter...	25.06	19.00	32.00	22.00

As of December 6, 1999, there were 194 record shareholders of the Common Stock.

The Company has not paid any cash dividends to shareholders. The declaration of any cash or stock dividends will be at the discretion of the Board of Directors, and will depend upon earnings, capital requirements and the financial position of the Company, general economic conditions and other pertinent factors. At this time, the Company does not intend to pay any cash dividends in the foreseeable future. Management intends to reinvest earnings, if any, in the development and expansion of the Company's business for an indefinite period of time. The Company's credit facility prohibits the payment of dividends.

On June 30, 1999 and September 23, 1999, the Company issued 231,140 and 278,801 shares of its common stock as partial consideration in connection with the acquisitions of America's Rent-To-Own and RentaVision, respectively. The shares were issued in connection with acquisitions to unaffiliated persons and bear restrictions on transfer. As such, the issuances of the shares is exempt from registration under Section 4 (2) of the Securities Act of 1933, as amended.

**ITEM 6 SELECTED FINANCIAL DATA**

The following selected financial data for the years ended September 30, 1995, 1996, 1997, 1998 and 1999 were derived from the financial statements of Rent-Way which have been restated to reflect the Company's merger with Home Choice. The historical financial data are qualified in their entirety by, and should be read in conjunction with, Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements of the Company and notes thereto included elsewhere in this document.

	Year Ended September 30. (1)				
	1995(2)	1996(3)	1997(4)	1998(5)	1999(6)
(Dollars in millions, except per share data)					
<b>Statement of Operations Data:</b>					
Total revenues.....	\$ 105,723	\$ 175,333	\$ 320,330	\$ 436,031	\$ 494,351
Gross profit.....	6,531	8,710	10,998	14,529	46,715
Income (loss) before extraordinary item.....	2,961	3,945	1,566	(1,838)	15,102
Net income (loss).....	2,961	3,945	1,297	(1,838)	14,583
Earnings (loss) applicable to common shares.....	2,923	3,816	1,577	(1,838)	14,583
<b>Basic:</b>					
Income (loss) before extraordinary item.....	\$ 0.41	\$ 0.34	\$ 0.11	\$ (0.09)	\$ 0.71
Net income (loss).....	\$ 0.41	\$ 0.34	\$ 0.09	\$ (0.09)	\$ 0.68
<b>Diluted:</b>					
Income (loss) before extraordinary item.....	\$ 0.41	\$ 0.32	\$ 0.11	\$ (0.09)	\$ 0.68
Net income (loss).....	\$ 0.41	\$ 0.32	\$ 0.09	\$ (0.09)	\$ 0.66
<b>Weighted average shares outstanding:</b>					
Basic.....	7,056	11,954	16,653	20,283	21,341
Diluted.....	7,156	12,089	16,653	20,283	23,345
<b>Balance Sheet Data:</b>					
Rental merchandise.....	\$ 34,335	\$ 76,586	\$ 132,393	\$ 176,022	\$ 202,145
Total assets.....	71,496	219,105	319,849	478,831	597,394
Debt.....	42,215	19,751	96,318	179,603	288,130
Stockholders' equity.....	14,309	177,063	183,968	247,863	277,452

- (1) As a result of the Company's merger with Home Choice in a pooling of interests, all periods prior to the year ended September 30, 1999 have been restated. The year ended September 30, 1998 reflects the combination of the preceding twelve-month financial periods for each of Rent-Way and Home Choice. All other years presented reflect the combination of twelve months ended September 30 for Rent-Way and twelve months ended December 31 for Home Choice.
- (2) During the year ended September 30, 1995, the Company acquired 50 rental-purchase stores, 46 through the acquisition of McKenzie Leasing Corporation in July 1995, which affects the comparability of the historical financial information for the periods presented.
- (3) During the year ended September 30, 1996, the Company acquired 190 rental-purchase stores, 102 through the acquisition of Action TV & Appliance Rental, Inc., which affects the comparability of the historical financial information for the periods presented.
- (4) During the year ended September 30, 1997, the Company acquired 214 rental-purchase stores, 70 of which were acquired in February 1997 from Perry Electronics, Inc. d/b/a Rental King, which affects the comparability of the historical financial information for the periods presented.
- (5) During the year ended September 30, 1998, the Company acquired 250 rental-purchase stores, 50 of which were acquired in January 1998 from Ace Rentals and 145 of which were acquired in February 1998 from Champion, which affects the comparability of the historical financial information for the periods presented.
- (6) During the year ended September 30, 1999, the Company acquired 275 rental-purchase stores, 250 of which were acquired in September 1999 from RentaVision, which affects the comparability of the historical financial information for the periods presented.

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

### Overview

Rent-Way is the second largest operator in the rental purchase industry with 1,114 stores located in 41 states. The Company offers quality brand name home entertainment equipment, furniture, appliances, and jewelry to customers under full-service rental-purchase agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed upon rental period.

On December 10, 1998, the Company completed a merger (the "Merger") with Home Choice Holdings, Inc. ("HMCH" or "Home Choice"). The Merger, as per the terms of the agreement, was recorded as a pooling of interests, in accordance with Accounting Principles Board ("APB") Opinion No. 16. Under the terms of the agreement the Company issued 0.588 shares of common stock for each outstanding share of HMCH common stock. The Merger increased the outstanding shares of the Company by approximately 10,025,000 shares. HMCH, at the time of the Merger, operated 458 stores in 26 states, primarily in the southeastern, midwestern, and southwestern portions of the United States, with annual revenues of approximately \$260 million. As a result of the Merger, the Company became the second largest company in the rental-purchase industry.

On February 26, 1998, Home Choice (formerly Alreco, Inc.) merged with RTO, Inc. The merger, as per the terms of the agreement, was recorded as a pooling of interests, in accordance with APB Opinion No. 16. Under the terms of the agreement, Home Choice issued 0.898 shares of common stock for each outstanding share of RTO common stock.

Prior to the mergers, the management of the Company, Alreco, and RTO grew their operations through diverse strategies.

### Rent-Way Acquisitions

Rent-Way was formed in 1981 to operate a rental-purchase store in Erie, Pennsylvania. In 1993, as a result of acquisitions and new store openings, the Company was operating 19 stores in three states and had completed its initial public offering. In 1994, the Company acquired 20 rental-purchase stores through its acquisition of D.A.M.S.L. Corporation. In 1995, the Company acquired 50 rental-purchase stores, 46 through the acquisition of McKenzie Leasing Corporation. In 1996, the Company acquired 32 rental-purchase stores in four separate transactions. In 1997, the Company acquired 92 rental-purchase stores, 70 of which were acquired from Perry Electronics, Inc. d/b/a Rental King. In 1998, the Company acquired 226 rental-purchase stores, 50 of which were acquired from Ace Rentals and 145 of which were acquired from Champion Rentals, Inc. The Company also opened 13 new stores in 1998.

### Alreco Acquisitions

Alreco grew primarily through the opening of new stores from its inception in 1980 through 1990. During the period from 1990 to 1993, management focused its efforts on improving the performance of its existing stores. As a result, Alreco increased its revenue from \$16.3 million to \$22.3 million, operating profit from \$0.9 million to \$2.0 million, and net earnings from \$0.1 million to \$1.0 million. In 1994, Alreco acquired 18 rental-purchase stores. In 1995, Alreco acquired 15 stores. In 1996, Alreco acquired 75 stores in 23 separate transactions. In 1997, Alreco acquired 54 stores and 13 rental-purchase portfolios in 19 separate transactions.

### RTO Acquisitions

RTO was incorporated on June 20, 1996 and since that time it has aggressively sought to establish its store base through multiple significant store acquisitions, new store openings, and smaller store acquisitions. In 1996, RTO purchased 109 stores, 102 of which were acquired from Action TV & Appliance Rentals, Inc. In 1997, RTO acquired 73 stores in a series of transactions. In 1996 and 1997, RTO acquired 59 stores in transactions accounted for as a pooling-of-interests. Also in 1997, RTO opened 34 new stores. From January 1, 1998 until March 31, 1998, RTO opened eight additional stores.

The number of stores operated by the Company has increased from 395 as of September 30, 1996 to 1,114 as of September 30, 1999. The following table shows the number of stores opened, acquired, and/or merged during this three-year period.

Stores	Years Ended September 30,		
	1997	1998	1999
Open at Beginning of Period.....	395	597	869
Opened.....	16	65	12
Acquired.....	214	250	275
Locations Sold.....	8	8	-
Closed or Combined.....	20	35	42
Open at End of Period.....	<u>597</u>	<u>869</u>	<u>1,114</u>

In May 1999, the Company announced its plans to open 40-60 stores in the next twelve months. The new store openings will occur in under-served markets near existing locations to leverage field operating strength and advertising efficiencies. The Company plans to open 25 new locations by the end of the calendar year. Through November 1999, the Company had opened 16 new stores.

On June 30, 1999, the Company acquired America's Rent-To-Own Center, Inc. ("America's Rent-To-Own"). The transaction value was approximately \$7 million and was paid for with a combination of 231,140 shares of Rent-Way's common stock and the assumption of certain liabilities. America's Rent-To-Own operated 21 rental-purchase stores in Arkansas, Kansas, Missouri, and Oklahoma and had annual revenues of approximately \$8 million.

On September 23, 1999, the Company acquired all of the stock of RentaVision, Inc. ("RentaVision") for a purchase price of approximately \$74 million. RentaVision operated a chain of 250 rental-purchase stores in 16 states, 50 of which have been opened during the past year, with annual revenues of approximately \$75 million.

Management continues to actively seek acquisition candidates with financial and geographic profiles consistent with the Company's growth objectives.

In fiscal 1998 and 1999, the Company increased its staffing levels in field management, accounting, computer information systems, purchasing, and human resources to support its growth plans. As a result, in June 1998, the Company purchased a 34,000 square foot building to be used as its new corporate headquarters. The Company plans to construct a 30,000 square foot addition to this building in fiscal 2000 to support the Company's growth in the foreseeable future. The Company expects to benefit from leveraging these additional costs over a larger store base as it continues to expand its operations. In addition, the Company maintains administrative offices in Dallas, Texas, Daytona, Florida, Lexington, Kentucky, and Raleigh, North Carolina.

## RESULTS OF OPERATIONS

As an aid to understanding the Company's operating results, the following table expresses certain items of the Company's Consolidated Statements of Operations for the years ended September 30, 1999, 1998 and 1997 as a percentage of total revenues.

	Years ended		
	September 30,		
	1999	1998	1997
Revenues:			
Rental revenue	86.4%	86.7%	86.6%
Other revenue	13.6	13.3	13.4
Total revenues	100.0	100.0	100.0
Costs and operating expenses:			
Depreciation and amortization:			
Rental merchandise	25.0	24.9	25.0
Property and equipment	2.0	1.7	1.7
Amortization of goodwill	2.0	2.6	3.7
Salaries and wages	26.0	27.6	27.9
Advertising	4.7	5.4	5.6
Occupancy	6.7	6.9	7.0
Name change expense	—	0.3	0.3
Business combination costs	3.4	2.6	0.3
Signing bonus	—	—	0.1
Other operating expense	20.8	24.7	25.0
Total costs and operating expenses	90.6	96.7	96.6
Operating income	9.4	3.3	3.4
Interest expense	(3.3)	(2.6)	(1.8)
Other income (expenses), net	(0.1)	—	0.4
Income before income taxes and extraordinary item	6.0	0.7	2.0
Income tax expense	3.0	1.1	1.5
Income (loss) before extraordinary item	3.0	(0.4)	0.5
Extraordinary item	(0.1)	—	(0.1)
Net income (loss)	2.9%	(0.4)%	0.4%

### Fiscal 1999 compared to Fiscal 1998

*Total revenues.* Total revenues increased \$58.4 million, or 13.4%, to \$494.4 million from \$436.0 million. The increase is attributable to the inclusion of a full year's results for the stores acquired in fiscal 1998, a partial year's operations for the stores acquired and opened in fiscal 1999, and increased same store revenues. The stores acquired in the Champion acquisition, consummated on February 5, 1998, accounted for \$29.5 million, or 50.5%, of the increase. The stores acquired in the Ace Rentals acquisition, consummated on January 7, 1998 accounted for \$5.0 million, or 8.6%, of the increase. The stores acquired in other 1998 acquisitions accounted for \$12.2 million, or 20.9%, of the increase. The stores acquired in 1999 acquisitions accounted for \$3.4

million, or 5.8%, of the increase. The stores opened in fiscal 1999 accounted for \$2.7 million, or 4.6%, of the increase. The Company's same stores accounted for \$5.6 million, or 9.6%, of the increase. The increase in same store revenues was primarily due to a 0.4% increase as a percentage of total revenues in electronics rentals, a 0.4% increase as a percentage of total revenues in furniture rentals, a 0.4% increase as a percentage of total revenues in jewelry rentals, a 0.2% increase as a percentage of total revenues in early purchase option sales, and a 0.6% increase as a percentage of total revenues in sales of the Rent-Way Plus liability protection plan offset by a 1.3% decrease as a percentage of total revenues in sales of liability waivers, a 0.3% decrease as a percentage of total revenues in processing fees, and a 0.2% decrease as a percentage of total revenues in pager rentals. Appliance rentals and merchandise sales remained unchanged as a percentage of total revenues. The Company expects increased same store revenues in fiscal 2000 due to, among many other factors, the addition of new products and services. During the last quarter of fiscal 1999, the Company added Compaq personal computers to its product line. In addition, the Company has begun to act as an agent to provide prepaid phone service through a third party. This program is currently being tested on a limited basis. Management believes that opportunities exist to provide additional non-traditional merchandise to its customers.

*Depreciation and amortization.* Depreciation expense related to rental merchandise increased slightly to 25.0% as a percentage of total revenues from 24.9%. This increase is primarily due to the depreciation expense related to the new Compaq computers. These computers, added to the Company's product line in June 1999, are depreciated on the straight-line basis over 15 months. The Company believes that this computer depreciation may cause depreciation expense as a percentage of total revenues to be slightly higher in fiscal 2000.

Depreciation expense related to property and equipment increased to 2.0% as a percentage of total revenues from 1.7%. This increase is principally due to the depreciation costs associated with the new corporate building purchased in June 1998, new store signage and remodels associated with the Home Choice stores, and the computer and software costs associated with the Company's implementation of a PeopleSoft software package in January 1999.

Amortization of goodwill decreased to 2.0% as a percentage of total revenues from 2.6%. This is attributable to the reduced amortization expense of 1996 and 1997 purchase acquisitions primarily for customer rental agreements, which are amortized on an accelerated method over an estimated useful life of 18 months.

*Salaries and wages.* Salaries and wages increased by \$8.2 million to \$128.5 million from \$120.3 million principally due to the addition of 526 new stores and additions to corporate personnel. Salaries and wages decreased to 26.0% as a percentage of total revenues from 27.6%. This decrease is due the Company's ability to spread corporate and regional managers' payroll over an increased store revenue base. This decrease is also attributable to the Company bringing Home Choice payroll and store personnel levels within the Company's standards. As a result of these factors, the Company expects a further decline in salaries and wages as a percentage of total revenues in fiscal 2000.

*Advertising.* Advertising expense decreased to \$23.4 million from \$23.6 million and as a percentage of total revenues decreased to 4.7% from 5.4%. This decrease is principally due to the Company's ability to focus advertising efforts in cluster markets. It is also due to the Company's participation in co-operative advertising programs with its vendors. As part of these co-operative programs, the Company is able to recoup a portion of its advertising costs from its vendors in the form of rebates for advertising their products in Rent-Way ads.

*Occupancy.* Occupancy expense increased to \$33.0 million from \$30.0 million principally due to the addition of the stores opened and acquired in fiscal 1998 and 1999.

*Business combination costs.* In conjunction with the Merger, the Company incurred \$16.8 million in costs which included investment banker fees of \$6.5 million, proxy preparation, printing, and other professional fees of \$1.3 million, employee severance and stay-put arrangement costs of \$4.5 million, due diligence and other costs of \$0.9 million, costs related to closing or disposing of duplicate corporate headquarters, equipment and stores in overlapping markets of \$2.1 million, and the write-off of prepaid assets which could not be used of \$1.5 million. In fiscal 1998, the Company incurred \$11.2 million in business combination costs associated with Home Choice's predecessor's merger with Alreco, Inc. in February 1998. These costs included investment banker fees, proxy preparation, printing, and other professional fees, employee severance and other costs associated with relocating the corporate headquarters from Indiana to Texas, costs related to closing and merging stores in the same markets, amortization expense of stock awards which vested fully upon the merger, and costs associated with terminating certain leases.

*Name change expense.* Name change expense decreased to \$0.1 million from \$1.8 million. In 1997, Home Choice launched a program to change the name of all of its stores from the various trade names acquired to "HomeChoice Lease or Own". In connection with this program, Home Choice incurred nonrecurring costs which included the write-off of the net carrying values of old signs and branded supplies and the expensing of new vehicle decals. The Company currently operates under both the RentWay and HomeChoice trade names.

*Other operating expenses.* Other operating expenses decreased to \$103.0 million from \$107.8 million and decreased to 20.8% as a

percentage of total revenues from 24.7%. This decrease is the result of the efficiencies gained by the Company from its ability to spread certain fixed costs over an increased store revenue base. These decreased fixed costs include liability insurance, legal and professional fees, state and local taxes, and office supplies.

*Operating income.* Operating income increased to 9.4% from 3.3% due to the factors discussed above. In connection with the Merger, the Company identified a large number of rental merchandise items, which failed to meet the accepted quality standards of the Company's operating procedures. Accordingly, the Company experienced an excessive amount of inventory deletions during the three month period ended December 31, 1998. The amount of excessive inventory write-offs included in the other operating expenses in the Consolidated Statement of Operations for the year ended September 30, 1999 was approximately \$1.1 million. Excluding these write-offs and the business combination costs described above, operating income increased to 13.1% from 5.9%. The Company anticipates its operating income to increase to approximately 16.0% in fiscal 2000 as a result of its continued ability to leverage costs over an increased store revenue base.

*Interest expense.* Interest expense increased to 3.3% from 2.6% as a percentage of total revenues. This increase is mainly due to a full year of interest accruing on the \$81.0 million in funds drawn on the Company's senior credit facility to consummate the Champion acquisition compared to a partial year of interest accruing in fiscal 1998.

*Income tax expense.* Income tax expense as a percentage of total revenues increased to 3.1% from 1.1%. The increase was due to a significant increase in pretax book income and operating income. The Company's effective tax rate decreased from 1998 because nondeductible business combination costs represented a smaller portion of pretax income in 1999 compared to 1998 and as a result of \$1,520 of favorable adjustments related to the completion of certain tax authority audits and finalization of certain tax returns related to acquired entities.

*Extraordinary item.* In connection with the Merger, the Company entered into a new syndicated loan facility. As a result of this refinancing, the Company wrote off the remainder of deferred financing costs associated with its and Home Choice's previous credit facilities. The amount of the remaining deferred financing costs was \$0.9 million, \$0.5 million net of tax benefit.

*Net income.* Net income increased to 2.9% from a net loss of 0.4% due to the factors discussed above.

#### **Fiscal 1998 compared to Fiscal 1997**

*Total revenues:* Total revenues increased \$115.7 million, or 36.1% to \$436.0 million from \$320.3 million. The increase is attributable to the inclusion of a full year's results for the stores acquired and opened in fiscal 1997, a partial year's operations for the stores acquired and opened in fiscal 1998, and increased same store revenues. The stores acquired in the Champion acquisition accounted for \$51.1 million, or 44.2%, of the increase. The stores acquired in the Ace Rentals acquisition, accounted for \$15.9 million, or 13.7%, of the increase. Other 1998 acquisitions accounted for \$2.8 million, or 2.4%, of the increase. Stores opened in fiscal 1998 accounted for \$3.8 million, or 3.3%, of the increase. The stores acquired in Rent-Way 1997 acquisitions accounted for \$17.8 million, or 15.4% of the increase. The stores acquired in Home Choice 1997 acquisitions accounted for \$14.3 million, or 12.3% of the increase. The stores opened in fiscal 1997 accounted for \$9.1 million, or 7.9%, of the increase. The Company's same stores accounted for \$0.9 million, or 0.8%, of the increase.

*Depreciation and amortization.* Depreciation expense related to rental merchandise increased to \$108.4 million from \$80.2 million, but decreased to 24.9% from 25.0% of total revenues principally due to increases in weekly rental rates, lower purchase costs of rental merchandise due to increased volume, and improved realization of collectible rent.

Depreciation expense related to property and equipment increased to \$7.2 million from \$5.5 million primarily due to the new store signage, remodels, and computer equipment costs associated with the Champion acquisition and Ace Rentals acquisition.

Amortization of goodwill decreased to 2.6% as a percentage of total revenues from 3.7%. This is attributable to the reduced amortization expense of 1996 and 1997 purchase acquisitions primarily for customer rental agreements, which are amortized on an accelerated method over an estimated useful life of 18 months.

*Salaries and wages.* Salaries and wages increased by \$30.8 million to \$120.3 million from \$89.5 million principally due to the addition of the stores associated with the Champion acquisition and Ace Rentals acquisition. Salaries and wages as a percentage of total revenues decreased 0.3% to 27.6% from 27.9%.

*Advertising.* Advertising expense increased to \$23.6 million from \$17.9 million principally due to the addition of the stores associated with the Champion acquisition and Ace Rentals acquisition. Advertising expense decreased to 5.4% from 5.6% of total revenues.

*Occupancy.* Occupancy expense increased to \$30.0 million from \$22.3 million principally due to the addition of the stores

associated with the Ace Rentals acquisition and Champion acquisition, but decreased to 6.9% from 7.0% of total revenues.

*Business combination costs.* Business combination costs increased to 2.6% as a percentage of total revenues from 0.3%. This increase is due to the \$11.2 million in costs incurred by Home Choice's predecessor to effect the merger with Alreco, Inc. in February 1998. These costs included investment banker fees, proxy preparation, printing, and other professional fees, employee severance and other costs associated with relocating the corporate headquarters from Indiana to Texas, costs related to closing and merging stores in the same markets, amortization expense of stock awards which vested fully upon the merger, and costs associated with terminating certain leases.

*Name change expense.* Name change expense increased to \$1.8 million from \$0.7 million. In 1997, Home Choice launched a program to change the name of all of its stores from the various trade names acquired to "HomeChoice Lease or Own". In connection with this program, Home Choice incurred nonrecurring costs which included the write-off of the net carrying values of old signs and branded supplies and the expensing of new vehicle decals.

*Other operating expenses.* Other operating expenses increased to \$107.8 million from \$80.0 million primarily due to the addition of the stores associated with the Ace Rentals acquisition and Champion acquisition, but decreased to 24.7% from 25.0%.

*Operating income.* Operating income decreased to 3.3% from 3.4%. This decrease is principally due to the business combination costs described above. Excluding these costs, operating income increased to 5.9% from 3.7%. This increase is principally due to the Company's ability to spread fixed costs over an increased store revenue base.

*Interest expense.* Interest expense increased to 2.6% as a percentage of total revenues from 1.8%. This increase is mainly due to a full year of interest accruing on borrowings drawn on the Company's credit facility in connection with the acquisition of Bill Coleman TV in January 1997 and the \$20.0 million of 7.0% Convertible Subordinated Debentures due 2007 (the "Debentures") issued in connection with the Rental King acquisition. This increase is also due to the \$81.0 million in funds drawn on the Company's senior credit facility in connection with the Champion acquisition.

*Income tax expense.* Income tax as a percentage of total revenues decreased to 1.1% from 1.5%. The decrease in fiscal 1998 was due to lower pretax income, resulting from increased business combination costs incurred during 1998, a portion of which were nondeductible for tax purposes.

*Net income.* The Company generated a net loss of 0.4% in fiscal 1998 as compared to net income of 0.4% in fiscal 1997. This decrease is the result of the business combination costs described above.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements relate primarily to acquisitions, new store openings, and purchasing additional rental merchandise and replacing rental merchandise that has been sold or is no longer suitable for rent. The Company intends to increase the number of stores it operates through acquisitions and new store openings. Such acquisitions will vary in size and the Company will consider large acquisitions that could be material to the Company. To provide any additional funds necessary for the continued pursuit of its growth strategies, the Company may incur, from time-to-time, additional short and long-term bank or other institutional indebtedness and may issue, in public or private transactions, its equity and debt securities, depending upon market and other conditions. There can be no assurance that such additional financing will be available on terms acceptable to the Company.

Net cash provided by (used in) operating activities increased to \$11.0 million for fiscal 1999 from (\$12.9 million) for fiscal 1998. This increase is principally due to a \$16.4 million increase in net income, a \$11.3 million increase in deferred income taxes, a \$5.2 million decrease in rental merchandise purchases, and a \$4.5 million increase in income taxes payable offset by a \$27.1 million decrease in accounts payable and a \$11.3 million decrease in other liabilities.

Net cash used in investing activities decreased \$45.1 million to \$92.0 million in fiscal 1999 compared to \$137.1 million in fiscal 1998. Capital expenditures in fiscal 1999 included the purchase of 21 stores from America's Rent-To-Own in June 1999 and 250 stores from RentaVision in September 1999. It also included the purchase of new store signage and store remodeling costs associated with the stores obtained in the Home Choice merger. Capital expenditures in 1998 included the purchase of 50 stores from Ace Rentals in January 1998, 145 stores from Champion in February 1998, and an additional 55 stores. It also included the purchase of a 34,000 square foot building to be used as the Company's new corporate headquarters in June 1998. The purchase price of the building was \$3.7 million. In addition, 1998 capital expenditures included the computer equipment and software costs related to the implementation of a PeopleSoft software package for all accounting functions, payroll, human resources, and benefit administration requirements and a J. Driscoll package for cash management.

In fiscal 2000, the Company plans to construct a 30,000 square foot addition to its current corporate headquarters facility. The Company estimates the cost at approximately \$3.5 million. The Company plans to fund this project with borrowings on its senior

credit facility.

Net cash provided by financing activities decreased to \$84.4 million in fiscal 1999 from \$149.7 million in fiscal 1998. Cash flows from financing activities have historically represented the Company's financing of its long term growth.

On September 23, 1999, the Company amended its existing collateralized term loan and revolving credit facility with a syndicate of banks led by Bank of Montreal and National City Bank (the "Amended Facility"). The Amended Facility provides for loans and letters of credit up to \$325.0 million. Borrowings under the Amended Facility bear interest at the Company's option either at a base rate or a LIBOR based rate. The Amended Facility requires the Company to meet certain financial covenants and ratios including maximum leverage, minimum interest coverage, minimum tangible net worth, fixed charge coverage, and rental merchandise usage ratios. As of September 30, 1999, the Company was in compliance with all covenants contained in the Amended Facility. As of September 30, 1999 \$268.0 million in borrowings is outstanding under the Amended Facility. Of the \$268.0 million outstanding, \$43.0 million is related to a revolving credit facility, which is payable September 30, 2004 and \$225.0 million is in the form of term notes.

The principal amount of the Term Notes A (with maximum borrowings of \$125.0 million) are payable in quarterly payments due on the last day of each December, March, June, and September, beginning with the quarter ending December 31, 1999, and as follows:

<u>Quarter (s) Ending on Following Date or In The Following Period</u>	<u>Amount of Quarterly Payment of Principal Due on Each Payment Date</u> (in millions of \$)
12-31-99 through 9-30-00 .....	5 3.8
12-31-00 through 9-30-01 .....	5.0
12-31-01 through 9-30-02 .....	6.3
12-31-02 through 9-30-03 .....	7.5
12-31-03 through 9-30-04 .....	8.8

The principal amount of each of the Term Notes B (with maximum borrowings of \$100.0 million) are payable in quarterly payments each in the amount of \$250,000 due on the last day of each December, March, June, and September, beginning with the quarter ending December 31, 1999, and continuing through and including September 30, 2004, followed by two annual payments on September 30, 2005 and September 30, 2006, each in the amount of \$47.5 million.

The Company believes that it will generate sufficient amounts of cash from operations to make the required quarterly principal repayments in fiscal 2000.

Management believes that sufficient resources will be available to meet the Company's cash requirements through at least the next twelve months. The Company believes that it can adequately fund its cash needs for the foreseeable future through borrowings under the Amended Facility and cash generated from operations. Cash requirements for periods beyond the next twelve months depend on the Company's profitability, its ability to manage working capital requirements, and its rate of growth.

#### Quantitative and Qualitative Disclosures About Market Risk

The Company's major market risk exposure is primarily due to possible fluctuations in interest rates. The Company's policy is to manage interest rate risk by utilizing interest rate swap agreements to convert a portion of the floating interest rate debt to fixed interest rates. The Company does not enter into derivative financial instruments for trading or speculative purposes. The interest rate swap agreements are entered into with major financial institutions thereby minimizing the risk of credit loss.

The following table presents information about the Company's market sensitive financial instruments. The table illustrates the principle and notional amounts, as well as the date of maturity, actual and weighted average pay and receive rates for all significant financial and derivative financial instruments in effect as of September 30, 1999:

Expected Maturity Dates (dollars in millions):	1999	2000	2001	2002	2003	2004	Thereafter
<b>Debt:</b>							
Revolving credit facility, Base rate option.....						\$3.0	
—Actual floating rate.....						9.250%	
Revolving credit facility, Euro-rate option.....						\$40.0	
—Actual floating rate.....						8.014%	
Term Loan A Euro-rate option.....	\$15.0	\$20.0	\$25.0	\$30.0	\$35.0		
—Actual floating rate.....	8.014%	8.014%	8.014%	8.014%	8.014%		8.014%
Term Loan B Euro-rate option.....	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0		\$95.0
—Actual floating rate.....	8.383%	8.383%	8.383%	8.383%	8.383%		8.383%
Convertible Subordinated Debentures.....							\$20.0
—Actual fixed interest rate.....							7.0%
<b>Interest rate swap agreements:</b>							
National City Bank, notional amount.....					\$30.0		
—Actual fixed interest rate pay rate.....					5.965%		
—Actual variable interest rate receive rate, (based on 3 month LIBOR).....					5.514%		
Bank of America, notional amount.....					\$20.0		
—Actual fixed interest rate pay rate.....					5.760%		
—Actual variable interest rate receive rate, (based on 3 month LIBOR).....					5.514%		
Manufacturers and Traders Trust, notional amount.....					\$10.0		
—Actual fixed interest rate pay rate.....					5.925%		
—Actual variable interest rate receive rate, (based on 3 month LIBOR).....					5.514%		
Harris Bank, notional amount.....					\$20.0		
—Actual fixed interest rate pay rate.....					5.090%		
—Actual variable interest rate receive rate, (based on 3 month LIBOR).....					5.514%		
SunTrust Bank, notional amount.....					\$10.0		
—Actual fixed interest rate pay rate.....					5.105%		
—Actual variable interest rate receive rate, (based on 3 month LIBOR).....					5.514%		
LaSalle Bank, notional amount.....					\$10.0		
—Actual fixed interest rate pay rate.....					5.095%		
—Actual variable interest rate receive rate, (based on 3 month LIBOR).....					5.514%		
Bank of America, notional amount.....					\$10.0		
—Actual fixed interest rate pay rate.....					5.120%		
—Actual variable interest rate receive rate, (based on 3 month LIBOR).....					5.514%		
Harris Bank, notional amount.....					\$10.0		
—Actual fixed interest rate pay rate.....					5.120%		
—Actual variable interest rate receive rate, (based on 3 month LIBOR).....					5.514%		
<b>Letters of credit:</b>							
Letter of credit, Base rate option.....	\$650						
—Actual floating rate.....	N/A						
Letter of credit, Base rate option.....	\$300						
—Actual floating rate.....	N/A						
Letter of credit, Base rate option.....		\$450					
—Actual floating rate.....		N/A					
Letter of credit, Base rate option.....		\$300					
—Actual floating rate.....		N/A					

### Seasonality and Inflation

Management believes that operating results may be subject to seasonality. In particular, the fourth quarter generally exhibits a slight tightening of customer spending habits commensurate with summer vacations, back-to-school needs and other factors. Conversely, the first quarter typically has a greater percentage of rentals because of traditional holiday shopping patterns. Management plans for these seasonal variances and takes particular advantage of the first quarter with product promotions, marketing campaigns, and employee incentives. Because many of the Company's expenses do not fluctuate with seasonal revenue changes, such revenue changes may cause fluctuations in the Company's quarterly earnings.

During the year ended September 30, 1999, the cost of rental merchandise, store lease rental expense and salaries and wages have increased modestly. These increases have not had a significant effect on the Company's results of operations because the Company has been able to charge commensurately higher rental for its merchandise. This trend is expected to continue in the foreseeable future.

## Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income", effective for fiscal years beginning after December 15, 1997. This Statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The Company adopted the provisions of this standard effective October 1, 1998 and has had no items of other comprehensive income.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" effective for fiscal years beginning after December 15, 1997. This Statement requires that public business enterprises report certain information about operating segments in annual and interim financial statements. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers. The Company has only one segment.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" effective for all fiscal quarters of fiscal years beginning after June 15, 1999. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date SFAS No. 133-an Amendment of FASB Statement 133". This Statement delays the effective date for this standard until fiscal years beginning after June 15, 2000. The Company is currently evaluating the provisions of these statements.

The Accounting Standards Executive Committee Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), issued in March 1998 and effective for fiscal years beginning after December 15, 1998 with earlier application permitted, provides guidance on accounting for the costs of computer software developed or obtained for internal use. The Company adopted this statement for the year ended September 30, 1999 resulting in no significant effect in the Company's consolidated financial statements.

The Accounting Standards Executive Committee Statement of Position 98-5, "Accounting for the Costs of Start-up Activities" ("SOP 98-5"), issued in April 1998 and effective for fiscal years beginning after December 15, 1998 with earlier application permitted, provides guidance on financial reporting of start up costs and organization costs. The Company is currently evaluating the provisions of this statement.

## Year 2000 Issues

The Company utilizes management information systems and software technology that may be affected by Year 2000 issues throughout its operations. During fiscal 1998 the Company began to implement plans to ensure those systems continue to meet its internal and external requirements. All the Company's remote locations operate on an internally developed point of sale system. This system utilizes a peer to peer, Windows 95 local area network. Communications between remote locations and the corporate office are handled via e-mail through the internet. After completion of testing, the Company has determined that its point of sale system is Year 2000 compliant. As a result of the Company's growth, a decision was made to upgrade information systems at the corporate office. The installation and implementation of a Year 2000 compliant PeopleSoft software package was completed on January 1, 1999. This package encompasses all accounting functions, payroll, human resources and benefit administration requirements. The system operates in an n-tier environment on a Windows NT platform. The cost of all hardware, software, training and implementation was approximately \$1.5 million, the majority of which was incurred in fiscal 1998. In addition to the PeopleSoft package, the Company has implemented a Year 2000 compliant J. Driscoll Package for cash management. This package will operate on the same platform as the PeopleSoft package.

The Company has developed questionnaires and contacted key suppliers regarding their Year 2000 compliance to determine any impact on its operations. In general, the suppliers have developed or are in the process of developing plans to address Year 2000 issues. The Company will continue to monitor and evaluate the progress of its suppliers on this matter. The Company is also reviewing its non-information technology systems to determine the extent of any changes that may be necessary and believes that there will be minimal changes required for compliance.

Based on the progress the Company has made in addressing its Year 2000 issues and the Company's plan and timeline to complete its compliance program, the Company does not foresee significant risks associated with its Year 2000 compliance at this time. As the Company's plan is to address its significant Year 2000 issues prior to being affected by them, it has not developed a comprehensive contingency plan. However, if the Company identifies significant risks related to its Year 2000 compliance or its progress deviates from the anticipated timeline, the Company will develop contingency plans as deemed necessary at that time.

## CAUTIONARY STATEMENT

This Report on Form 10-K and the foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations contains various "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's Annual Report to Shareholders, any Report on Form 10-Q or Current Report on Form 8-K or any other written or oral statements made by or on behalf of the Company may include forward looking statements. Forward-looking statements represent the Company's expectations or beliefs concerning future events. Any forward-looking statements made by or on behalf of the Company are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other factors include, but are not limited to, (i) the ability of the Company to acquire additional rental-purchase stores on favorable terms, (ii) the ability of the Company to improve the performance of such acquired stores and to integrate such acquired stores into the Company's operations, (iii) the Company's ability to open new stores in favorable locations and to cause such stores to become profitable in a timely manner or at all, (iv) the Company's ability to improve the revenue performance and profitability of the Home Choice stores and the other stores acquired in fiscal 1999, (v) the impact of state and federal laws regulating or otherwise affecting the rental-purchase transaction, and (vi) unforeseen impacts arising from Year 2000 issues.

Undue reliance should not be placed on any forward-looking statements made by or on behalf of the Company as such statements speak only as of the date made. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, the occurrence of future events or otherwise.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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RENT-WAY, INC.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Rent-Way, Inc.:

In our opinion, based on our audits and in 1997 the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Rent-Way, Inc. and its Subsidiaries at September 30, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Alrenco, Inc. prior to its combination with RTO, Inc. on February 26, 1998, which 1997 statements reflect total revenues of 37% and net income of \$3,586,000 for the year ended December 31, 1997. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion herein, insofar as it relates to amounts included for Alrenco, Inc., is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Cleveland, Ohio  
December 22, 1999

RENT-WAY, INC.

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Shareholders of Rent-Way, Inc.:

We have audited, prior to the restatement for the 1998 pooling of interests with RTO, Inc., the statements of operations, shareholders' equity, and cash flows of Alrenco, Inc. for the year ended December 31, 1997, which are not presented herein. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Alrenco, Inc. for the year ended December 31, 1997, in conformity with generally accepted accounting principles.

GRANT THORNTON LLP

Dallas, Texas  
January 30, 1998

**RENT-WAY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(all dollars in thousands)

	September 30,	
	1999	1998
<b>Assets</b>		
Cash and cash equivalents .....	\$ 8,646	\$ 5,326
Prepaid expenses .....	9,610	7,819
Income tax receivable .....	—	2,972
Rental merchandise, net .....	202,145	176,022
Deferred income taxes .....	—	5,301
Property and equipment, net .....	50,578	38,519
Goodwill, net of accumulated amortization of \$26,411 and \$16,627, respectively .....	305,900	225,354
Deferred financing costs, net of accumulated amortization of \$487 and \$571, respectively .....	3,688	1,575
Non-compete agreements and prepaid consulting fees, net of accumulated amortization of \$6,687 and \$2,045, respectively .....	5,494	6,950
Other assets .....	11,333	8,993
	<u>\$ 597,394</u>	<u>\$ 478,831</u>
 <b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable .....	\$ 8,417	\$ 28,145
Other liabilities .....	15,861	23,220
Income taxes payable .....	2,316	—
Deferred income taxes .....	5,218	—
Debt .....	<u>288,130</u>	<u>179,603</u>
	319,942	230,968
Commitments and contingencies (Note 9) .....	—	—
 <b>Shareholders' equity:</b>		
Preferred stock, without par value; 1,000,000 shares authorized; no shares issued and outstanding at September 30, 1999 and 1998, respectively .....	—	—
Common stock, without par value; 50,000,000 shares authorized; 21,976,401 and 21,060,820 shares issued and outstanding at September 30, 1999 and 1998, respectively .....	256,755	241,749
Retained earnings .....	<u>20,697</u>	<u>6,114</u>
Total shareholders' equity .....	<u>277,452</u>	<u>247,863</u>
	<u>\$597,394</u>	<u>\$478,831</u>

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

**RENT-WAY, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(all dollars in thousands, except per share data)

	<u>For the Years Ended September 30,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b>Revenues:</b>			
Rental revenue.....	\$ 427,093	\$ 377,918	\$ 277,261
Other revenue.....	<u>67,258</u>	<u>58,113</u>	<u>43,069</u>
Total revenues.....	494,351	436,031	320,330
<b>Costs and operating expenses:</b>			
<b>Depreciation and amortization:</b>			
Rental merchandise.....	123,511	108,367	80,165
Property and equipment.....	9,603	7,238	5,506
Amortization of goodwill.....	9,784	11,248	11,829
Salaries and wages.....	128,525	120,296	89,510
Advertising.....	23,352	23,613	17,872
Occupancy.....	33,016	29,974	22,349
Name change expense.....	86	1,770	743
Business combination costs.....	16,800	11,210	935
Signing bonus.....	—	—	400
Other operating expenses.....	<u>102,959</u>	<u>107,786</u>	<u>80,023</u>
Total costs and operating expenses.....	<u>447,636</u>	<u>421,502</u>	<u>309,332</u>
Operating income.....	46,715	14,529	10,998
<b>Other income (expense):</b>			
Interest expense.....	(15,581)	(10,949)	(5,642)
Amortization—deferred financing costs.....	(422)	(358)	(239)
Interest income.....	29	251	219
Other income (expense), net.....	<u>(405)</u>	<u>(540)</u>	<u>1,096</u>
Income before income taxes and extraordinary item.....	30,336	2,933	6,432
Income tax expense (Notes 4 and 11).....	<u>15,234</u>	<u>4,771</u>	<u>4,866</u>
Income (loss) before extraordinary item.....	15,102	(1,838)	1,566
Extraordinary item (Notes 1 and 7).....	<u>(519)</u>	<u>—</u>	<u>(269)</u>
Net income (loss).....	14,583	(1,838)	1,297
Preferred stock gain on redemption (Note 10).....	<u>—</u>	<u>—</u>	<u>280</u>
Earnings (loss) applicable to common shares.....	<u>\$ 14,583</u>	<u>\$ (1,838)</u>	<u>\$ 1,577</u>
<b>Earnings (loss) per common share:</b>			
<b>Basic earnings (loss) per share (adjusted to give effect to preferred stock gain on redemption):</b>			
Income (loss) before extraordinary item.....	<u>\$ 0.71</u>	<u>\$ (0.09)</u>	<u>\$ 0.11</u>
Net income (loss).....	<u>\$ 0.68</u>	<u>\$ (0.09)</u>	<u>\$ 0.09</u>
<b>Diluted earnings (loss) per share (adjusted to give effect to preferred stock gain on redemption):</b>			
Income (loss) before extraordinary item.....	<u>\$ 0.68</u>	<u>\$ (0.09)</u>	<u>\$ 0.11</u>
Net income (loss).....	<u>\$ 0.66</u>	<u>\$ (0.09)</u>	<u>\$ 0.09</u>
<b>Weighted average number of shares outstanding:</b>			
Basic.....	<u>21,341</u>	<u>20,283</u>	<u>16,653</u>
Diluted.....	<u>23,345</u>	<u>20,283</u>	<u>16,653</u>

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

RENT-WAY, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
For the Years Ended September 30, 1999, 1998 and 1997  
(all dollars and shares in thousands)

	Common Stock		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		
Balance at September 30, 1996.....	16,598	\$ 175,446	\$ 1,618	\$ 177,064
Net income .....	—	—	1,297	1,297
Common stock returned to treasury (Note 4) .....	(66)	—	—	—
Purchases of business (Note 4) .....	—	107	—	107
Issuance of common stock under stock option plans including tax benefit (Note 13).....	457	4,434	—	4,434
Issuance of common stock to 401(k) Plan (Note 15).....	22	272	—	272
Issuance of common stock.....	29	690	—	690
Purchase and retirement of common stock from dissenters.....	(10)	(266)	—	(266)
Amortization of stock awards .....	—	194	—	194
Distributions to S-Corporation Shareholders ... Preferred stock (dividends)/gain on redemption (Note 10).....	—	280	(77)	(77)
	—	280	(30)	250
Balance at September 30, 1997.....	<u>17,030</u>	<u>181,157</u>	<u>2,308</u>	<u>183,965</u>
Net (loss) .....	—	—	(1,838)	(1,838)
Home Choice net income for the three months ended December 31, 1997 due to merger and resulting change in fiscal year-end (Note 1) .....	—	—	5,144	5,144
Public stock offering, net of expenses (Note 3) .....	2,888	47,053	—	47,053
Conversion of convertible debt (Note 7).....	704	7,000	—	7,000
Write-off deferred financing costs on convertible debt (Note 7) .....	—	(25)	—	(25)
Purchase of business (Note 4).....	16	425	—	425
Issuance of common stock to 401(k) Plan (Note 15).....	18	383	—	383
Issuance of common stock under stock option plans including tax benefit (Note 13).....	404	4,768	—	4,768
Amortization of stock awards .....	—	988	—	988
Balance at September 30, 1998.....	<u>21,060</u>	<u>241,749</u>	<u>6,114</u>	<u>247,963</u>
Net income .....	—	—	14,583	14,583
Purchases of business (Note 4) .....	503	9,938	—	9,938
Issuance of common stock to 401(k) Plan (Note 15).....	18	351	—	351
Issuance of common stock under stock option plans including tax benefit (Note 13).....	395	4,717	—	4,717
	<u>21,976</u>	<u>\$ 256,755</u>	<u>\$ 20,697</u>	<u>\$ 277,452</u>

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

**RENT-WAY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(all dollars in thousands)

	For the Years Ended September 30.		
	1999	1998 (A)	1997 (A)
<b>Operating activities:</b>			
Net income (loss).....	\$ 14,583	\$ (1,838)	\$ 1,297
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>			
Loss on sale of property and equipment.....	—	989	229
Gain on sale of stores, net.....	—	(174)	(950)
Depreciation and amortization.....	143,320	127,211	97,739
Deferred income taxes.....	10,748	(591)	(1,117)
Deferred financing costs write-off.....	865	682	324
Issuance of common stock to 401(k) plan.....	—	383	272
<b>Changes in assets and liabilities:</b>			
Prepaid expenses.....	(1,585)	(1,875)	(42)
Rental merchandise.....	(135,806)	(141,043)	(111,257)
Income tax receivable.....	2,972	(43)	—
Other assets.....	1,950	(4,340)	(4,482)
Accounts payable.....	(18,072)	8,961	12,897
Income taxes payable.....	2,197	(2,266)	(2,102)
Other liabilities.....	(10,195)	1,075	(837)
Net cash provided by (used in) operating activities.....	<u>10,977</u>	<u>(12,869)</u>	<u>(8,029)</u>
<b>Investing activities:</b>			
Purchase of businesses, net of cash acquired.....	(69,985)	(113,561)	(76,579)
Purchases of property and equipment.....	(22,051)	(27,074)	(14,373)
Proceeds from the sale of property and equipment.....	—	—	3,321
Dispositions of stores, net of cash sold.....	—	3,032	3,032
Payments received on notes receivable.....	—	521	1,098
Other.....	—	—	(7)
Net cash used in investing activities.....	<u>(92,036)</u>	<u>(137,082)</u>	<u>(83,508)</u>
<b>Financing activities:</b>			
Book overdraft.....	(2,994)	7,302	—
Proceeds from borrowings.....	575,264	287,590	99,328
Payments on borrowings.....	(489,559)	(197,148)	(41,108)
Deferred financing costs.....	(3,400)	(457)	(1,661)
Issuance of common stock.....	5,068	51,883	4,434
Preferred stock dividend.....	—	—	(30)
Preferred stock redemption.....	—	—	(841)
Purchase of common stock from dissenters.....	—	—	(266)
Distributions to S corporation shareholders.....	—	—	(77)
Net cash provided by financing activities.....	<u>84,379</u>	<u>149,670</u>	<u>59,779</u>
Increase (decrease) in cash and cash equivalents.....	3,320	(281)	(31,758)
Cash and cash equivalents at beginning of year.....	<u>5,326</u>	<u>5,607</u>	<u>35,925</u>
Cash and cash equivalents at end of year.....	<u>\$ 8,646</u>	<u>\$ 5,326</u>	<u>\$ 4,167</u>

(A) See Note 1 for cash flows information related to the three months ended December 31, 1997.

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

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(all dollars in thousands, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

**Business and Organization**—Rent-Way, Inc. (the "Company") is a corporation organized under the laws of the Commonwealth of Pennsylvania. The Company operates a chain of stores that rent durable household products such as home entertainment equipment, furniture, major appliances and jewelry to consumers on a weekly or monthly basis in forty-one states. The stores are primarily located in the Midwestern, Eastern and Southern regions of the United States.

On January 1, 1999, the Company formed four wholly-owned subsidiaries: Rent-Way TTIG, L.P., an Indiana limited partnership, Rent-Way of Tomorrow, Inc., Rent-Way of Michigan, Inc., and Rent-Way Developments, Inc., all Delaware corporations (collectively referred to herein as the "Company" or "Rent-Way").

**Basis of Presentation**—The Company presents an unclassified balance sheet to conform to practice in the industry in which it operates.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

On December 10, 1998, Rent-Way completed a merger with Home Choice Holdings, Inc. ("Home Choice") (see Note 4). Prior to the merger, Home Choice's year end was December 31. As a result of the merger accounted for as a pooling of interests, Rent-Way's financial statements have been restated to retroactively combine Rent-Way with Home Choice as if the merger had occurred at the beginning of the earliest period presented. The consolidated statements of operations and cash flows for the year ended September 30, 1997, reflect the results of operations and cash flows of Rent-Way for the twelve months ended September 30, 1997 combined with Home Choice's for the twelve months ended December 31, 1997. As a result of Rent-Way and Home Choice having different fiscal years and the subsequent merger of Home Choice into Rent-Way, Home Choice's results of operations and cash flows for the three months ended December 31, 1997 have been included in both fiscal years 1998 and 1997 results and, therefore have been reflected as an adjustment to the Company's retained earnings at October 1, 1997. Home Choice had total revenues, costs and operating expenses and a net loss of \$61,242, \$67,915, and \$5,144, respectively, for the three months ended December 31, 1997. Cash flows provided by (used in) operating activities, investing activities and financing activities were \$(10,768), \$(3,085), and \$13,132, respectively, for the three months ended December 31, 1997.

On February 26, 1998, RTO, Inc. ("RTO") completed a merger with Alrengo, Inc. ("Alrengo"), with Alrengo being the surviving corporation in the merger (see Note 4). Alrengo subsequently changed its name to Home Choice. As a result of the merger accounted for as a pooling of interests, Alrengo's financial statements were restated to retroactively combine Alrengo with RTO as if the merger had occurred at the beginning of the earliest period presented.

These consolidated financial statements include the combination of Rent-Way and Home Choice, the purchase acquisitions and the pooling acquisitions (as described in Note 4) as required by Accounting Principles Board Opinion ("APB") No. 16.

**Accounting Estimates**—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Rental Merchandise, Rental Revenue and Depreciation**—Rental merchandise is rented to customers pursuant to rental agreements, which provide for either weekly or monthly rental payments collected in advance. Rental revenue is recognized as collected, since at the time of collection the rental merchandise has been placed in service and costs of installation and delivery have been incurred. This method of revenue recognition does not produce materially different results than if rental revenue was recognized over the weekly or monthly rental term. At the end of each rental period, the customer can renew the rental agreement.

Merchandise rented to customers or available for rent is classified in the consolidated balance sheet as rental merchandise and is valued at cost on a specific identification method. Write-offs of rental merchandise arising from customers' failure to return merchandise and losses due to excessive wear and tear of merchandise are recognized using the direct write-off method, which is materially consistent with the results that would be recognized under the allowance method.

The Company uses the units of activity depreciation method for all rental merchandise except computers. Under the units of activity method, rental merchandise is depreciated as revenue is collected. This rental merchandise is not depreciated during periods

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

when it is not on rent and therefore not generating rental revenue. Computers, added to the Company's product line in June 1999, are depreciated on the straight-line basis over 15 months.

Effective January 1, 1997, RTO and its new subsidiaries elected to depreciate all additions to rental merchandise acquired subsequent to December 31, 1996 using the units of activity method and make other conforming changes to the estimate of depreciation expense. These changes were made to more accurately match revenues and expenses. The impact of the changes on the results of operations for the year ended September 30, 1997 was to decrease net income by \$400 or \$0.02 per basic and diluted share.

**Other Revenue**—Other revenue includes revenue from various services and charges to rental customers, including late fees, liability waiver fees, processing fees, and sales of used merchandise as well as revenue from prepaid phone services. Other revenue is recognized as collected. This method of revenue recognition does not produce materially different results than if other revenue was recognized when earned.

**Comprehensive Income**—The Company has no items of other comprehensive income.

**Statement of Cash Flows Information**—Cash and cash equivalents consist of cash on hand and on deposit and highly liquid investments with maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates market value. The Company maintains deposits with several financial institutions. Deposits in excess of \$100 and mutual funds are not insured by the Federal Deposit Insurance Corporation.

Supplemental disclosures of cash flow information for the years ended September 30, are as follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
<b>Cash paid during the year for:</b>			
Interest .....	\$ 16,019	\$ 10,240	\$ 5,044
Income taxes, net of refunds .....	718	5,274	6,824
<b>Noncash investing activities:</b>			
Debt issued to seller in purchase business combinations (Note 4).....	\$ —	\$ —	\$ 7,100
Assets acquired by assumption of liabilities in purchase business combinations (Note 4).....	6,272	19,744	18,131
Also, in 1998 in conjunction with the asset purchase and exchange agreement with SKC the Company exchanged cash of \$1,100 and five stores with assets having a net book value of approximately \$964 in exchange for seven stores having fair value of \$2,385 (Note 4).			
<b>Noncash financing activities:</b>			
Common stock issued in purchase business combinations (Note 4).....	\$ 9,943	\$ 425	\$ —
Options issued to seller in purchase business combination (Note 4).....	—	—	107
Settlement of notes payable with common stock (Notes 7 and 12) .....	—	7,000	690
Issuances of common stock under stock option plans (Note 13) .....	4,717	4,768	4,434
Issuances of common stock to 401(k) plans (Note 15).....	351	383	272
Preferred stock gain on redemption (Note 10) .....	—	—	280

**Property and Equipment and Related Depreciation and Amortization**—Property and equipment are stated at cost. Additions and improvements that significantly extend the lives of depreciable assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in the results of operations. The Company's corporate headquarters and other buildings are depreciated over periods ranging from 20 to 40 years on a straight-line basis. Depreciation of furniture and fixtures, signs and vehicles is provided over the estimated useful lives of the respective assets (three to five years) on a straight-line or an accelerated basis. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the lease and renewal period, if applicable.

The Company reviews the recoverability of the carrying value of goodwill and other long-term assets using an undiscounted cash flow method. At this time, the Company believes that no significant impairment of the long-lived assets has occurred and that no reduction of the estimated useful lives is warranted.

**Income Taxes**—Deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax and financial statement basis of assets and liabilities at year end using income tax rates under existing legislation expected to be in

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

effect at the date such temporary differences are expected to reverse. Deferred income taxes are adjusted for tax rate changes as they occur.

**Intangible Assets**—Goodwill is stated at cost. Each acquisition is independently evaluated to determine the appropriate period for amortization of the resulting goodwill. Currently, amortization of goodwill is calculated on a straight line basis over periods ranging from ten to thirty years. Periodically, the Company will determine if there has been permanent impairment of goodwill by comparing anticipated undiscounted future net cash flows from operating activities of the acquired store locations with the carrying value of the related goodwill. At September 30, 1999 and 1998, the Company concluded that there was no impairment of goodwill. Deferred financing costs are stated at cost less amortization calculated on a straight-line basis over the term of the related debt agreements, which range from four to ten years. Non-compete agreements and prepaid consulting fees are stated at cost less amortization calculated on a straight-line basis over the term of the related agreements, which range from two to seven years. Customer contracts are stated at cost less amortization calculated on a straight-line basis over 18 months.

**Advertising Expense**—Advertising costs, net of co-op recoveries from vendors, are expensed the first time the advertising occurs.

**Advertising Rebates**—The Company participates in vendor advertising rebate programs with the majority of its rental merchandise suppliers. Rebates are recognized in the period earned. On a quarterly basis, management calculates the amount of the rebate and either submits a request for payment or credits the balance due the respective vendor.

**Earnings (Loss) Per Common Share**—Basic earnings (loss) per common share is computed using income available to common shareholders divided by the weighted average number of common shares outstanding. Diluted earnings (loss) per common share is computed using income available to common shareholders adjusted for anticipated interest savings, net of related taxes, for convertible subordinated notes and debentures and the weighted average number of shares outstanding is adjusted for the potential impact of options, warrants and convertible subordinated notes and debentures.

**Fair Value Disclosures**—Fair values of fixed interest debt instruments have been determined through a combination of management's estimates, information obtained from independent third parties, and discounted cash flow analysis. Fair values of other assets and liabilities are estimated to approximate their carrying values.

**Derivative Financial Instruments**—The Company uses derivative financial instruments to reduce the impact on interest expense of fluctuations in interest rates on a portion of its Amended Facility (see Notes 7 and 8). The Company does not enter into derivative financial instruments for trading or speculative purposes.

**Extraordinary Item**—As a result of the refinancing of its senior credit facility in December 1998, the Company wrote off the remainder of deferred financing costs associated with its previous credit facilities, which totaled \$865 (\$519 net of tax benefit) at the time of refinancing.

As a result of the refinancing of its senior credit facility in November 1996, the Company incurred an extraordinary charge, net of tax benefit, of \$269. The extraordinary charge was composed of a \$125 (\$75 net of tax benefit) prepayment penalty for early retirement of debt and a \$324 (\$194 net of tax benefit) write-off of deferred finance costs associated with the refinanced debt (see Note 7).

**Stock-Based Compensation**—The Company accounts for stock based compensation issued to its employees and non-employee directors in accordance with APB No. 25, "Accounting For Stock Issued to Employees" and has elected to adopt the "disclosure only" provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation".

**Reclassifications**—Certain amounts in the September 30, 1997 and 1998 consolidated financial statements were reclassified to conform to the September 30, 1999, presentation.

2. NEW ACCOUNTING STANDARDS:

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income", effective for fiscal years beginning after December 15, 1997. This statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. The Company adopted the provisions of this standard effective October 1, 1998 and has had no items of other comprehensive income.

## RENT-WAY, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

#### 2. NEW ACCOUNTING STANDARDS, Continued:

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" effective for fiscal years beginning after December 15, 1997. This statement requires that public business enterprises report certain information about operating segments in annual and interim financial statements. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers. The Company has only one segment.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" effective for all fiscal quarters of fiscal years beginning after June 15, 1999. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133-an Amendment of FASB Statement 133". This Statement delays the effective date for this standard until fiscal years beginning after June 15, 2000. The Company is currently evaluating the provisions of these statements.

The Accounting Standards Executive Committee Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), issued in March 1998 and effective for fiscal years beginning after December 15, 1998 with earlier application permitted, provides guidance on accounting for the costs of computer software developed or obtained for internal use. The Company adopted this statement for the year ended September 30, 1999 resulting in no significant effect in the Company's consolidated financial statements.

The Accounting Standards Executive Committee Statement of Position 98-5, "Accounting for the Costs of Start-up Activities" ("SOP 98-5"), issued in April 1998 and effective for fiscal years beginning after December 15, 1998 with earlier application permitted, provides guidance on financial reporting of start up costs and organization costs. The Company is currently evaluating the provisions of this statement.

#### 3. PUBLIC STOCK OFFERING:

On December 2, 1997, the Company completed a public stock offering consisting of 2,500,000 shares of common stock offered by the Company and 87,250 shares of common stock offered by certain selling shareholders. In addition, on December 30, 1997, the underwriters exercised a 30 day option to purchase 388,088 shares of common stock to cover over-allotments. The shares were offered at a price of \$17.25 per share. The Company received net proceeds (less underwriters discount and selling expenses) of \$47,053 including the underwriters exercise of the over-allotment option. The Company used these proceeds to repay outstanding borrowings of \$23,022 under the Company's credit agreement (see Note 7) and to fund the significant portion of the asset purchase of South Carolina Rentals, Inc., Paradise Valley Holdings, Inc. and L & B Rents, Inc. (collectively, "Ace Rentals") (see Note 4).

#### 4. MERGERS, ACQUISITIONS AND DISPOSALS:

##### Pooling Acquisitions

On December 10, 1998, the Company completed a merger with Home Choice Holdings, Inc. ("Home Choice"). The merger, as per the terms of the agreement, was recorded as a pooling of interests, in accordance with APB No. 16. Under the terms of the agreement the Company issued 0.588 shares of common stock for each outstanding share of Home Choice common stock. The merger increased the outstanding shares of the Company by approximately 10,025,000 shares. The corporate offices of the combined company are located in Erie, Pennsylvania. None of Home Choice's Board of Directors or executive officers retained a position with the combined company. Following the merger, Gerald A. Ryan remained as Chairman of the Board of the combined company, with William E. Morgenstern as President and Chief Executive Officer and Jeffrey A. Conway as Chief Financial Officer. In conjunction with the merger, certain costs were incurred which were recorded by the Company during the year ended September 30, 1999. These costs aggregated \$16,800 and included (i) investment banker fees of \$6,476, (ii) proxy preparation, printing and other professional fees of \$1,341, (iii) employee severance and stay-put arrangement costs of \$4,516, (iv) due diligence and other costs of \$874, (v) costs related to closing or disposing of duplicate corporate headquarters, equipment and stores in overlapping markets of \$2,142 and (iv) write-off of prepaid assets which could not be used of \$1,453. In addition, the Company identified a large number of rental merchandise items which failed to meet the accepted quality standards of the Company's operating procedures. Accordingly, the Company experienced an excessive amount of inventory deletions during the three month period ended December 31, 1998. The amount of excessive inventory write-offs included in other operating expenses in the Consolidated Statement of Operations for the

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

4. MERGERS, ACQUISITIONS AND DISPOSALS, Continued:

year ended September 30, 1999 was approximately \$1,100. In conjunction with the merger, the Company entered into a new syndicated loan facility (see Note 7).

On February 26, 1998, Home Choice (formerly Alreco, Inc.) completed a merger with RTO, Inc. The merger, as per the terms of the agreement, was recorded as a pooling of interests, in accordance with APB No. 16. Under the terms of the agreement, Alreco issued 0.898 shares of common stock for each outstanding share of RTO common stock. The merger increased the outstanding shares of Alreco by approximately 12,280,000 shares. The corporate offices of the combined company were located in Mesquite, Texas. In accordance with the terms of the merger agreement, the incumbent directors of Alreco, except Michael D. Waits, resigned and were replaced by George D. Johnson, Jr., Billy W. White, Sr., Edward W. Phifer, III, and John S. Rainey. Mr. Waits remained as director. Bill W. White, Sr., James G. Steckhart, and K. David Belt, Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer, respectively, of RTO continued in these roles for the combined company. George D. Johnson, Jr., Chairman of RTO, was named Chairman of the combined company. In conjunction with the merger, certain costs were incurred which were recorded by the Company during the year ended September 30, 1998. These costs aggregated \$11,210 and included (i) investment banker fees, proxy preparation, printing, and other professional fees, (ii) employee severance and other costs associated with relocating the corporate headquarters from Indiana to Texas, (iii) costs related to closing and merging stores in the same markets following the merger, (iv) amortization expense of stock awards which vested fully upon the merger, and (v) costs associated with terminating certain leases. In addition, Home Choice initiated a program in 1997 to change the name of its stores to "HomeChoice Lease or Own" from the various trade names it acquired. In connection with this program, Home Choice incurred nonrecurring costs which included the write-off of the net carrying values of old signs and branded supplies and the expensing of new vehicles decals. The amount of these nonrecurring costs included in name change expense in the Consolidated Statement of Operations for the years ended September 30, 1999, 1998, and 1997 were approximately \$86, \$1,770, and \$743, respectively.

Alreco merged with various other entities, which were consummated during 1997. Under the terms of each merger agreement, shares of common stock of each entity were multiplied by an exchange ratio and exchanged for shares of Alreco's common stock. A summary of each merger follows:

<u>Pooling Acquisitions</u>	<u>Date of Merger</u>	<u>Shares of Company Stock Issued</u>
ARTO, Inc. ("ARTO")	February 28, 1997	186,774
National TV Rental, Inc. ("National")	February 28, 1997	188,659
Seajay Group ("Seajay")	February 28, 1997	179,500
Showtyme Group ("Showtyme")	February 28, 1997	214,520
ABC Group ("ABC")	March 11, 1997	170,611
Discount Centers of America, Inc. ("Discount")	May 12, 1997	98,415
The Hut Co. ("Hut")	May 13, 1997	37,714

The mergers, as per the terms of the merger agreements, were recorded as poolings of interests, in accordance with APB No. 16. In conjunction with the mergers, certain costs aggregating \$935 were incurred by Alreco during the year ended December 31, 1997.

Separate unaudited results of the pooled entities prior to each date of the merger for the years ended 1999, 1998, and 1997 are as follows:

	<u>Year ended September 30, 1999</u>		
	<u>Revenues</u>	<u>Extraordinary Item</u>	<u>Net Income (Loss)</u>
Rent-Way October 1, 1998 to November 30, 1998	\$ 37,171	\$ —	\$ 2,231
Home Choice October 1, 1998 to November 30, 1998	44,270	—	(230)
Rent-Way and Home Choice December 1, 1998 to September 30, 1999	412,910	(519)	12,582
Total	\$ 494,351	\$ (519)	\$ 14,583

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(all dollars in thousands, except per share data)

4. MERGERS, ACQUISITIONS AND DISPOSALS, Continued:

	Year ended September 30, 1998		
	Revenues	Extraordinary Item	Net Income (Loss)
Rent-Way.....	\$ 177,327	\$ —	\$ 12,577
Home Choice.....	258,704	—	(14,415)
Total.....	<u>\$ 436,031</u>	<u>\$ —</u>	<u>\$ (1,838)</u>

	Year ended September 30, 1997		
	Revenues	Extraordinary Item	Net Income (Loss)
Rent-Way.....	\$ 88,446	\$ (269)	\$ 5,416
Alreco.....	103,005	—	3,586
RTO.....	123,739	—	(8,736)
ARTO.....	687	—	10
National.....	853	—	(74)
Seajay.....	1,224	—	(34)
Showtime.....	635	—	(3)
ABC.....	553	—	(77)
Discount.....	746	—	(45)
Hut.....	442	—	(6)
Conforming adjustments.....	—	—	1,261
Combined.....	<u>\$ 320,330</u>	<u>\$ (269)</u>	<u>\$ 1,298</u>

Conforming adjustments relate to conforming amortization policies, net of the related tax benefit.

Since certain of the business combinations accounted for as pooling-of-interests involved companies which were nontaxable enterprises prior to acquisition by Alreco (e.g. S Corporations), unaudited pro forma income tax expense (benefit) has been presented below for the year ended September 30, 1997 for the nontaxable enterprises as if they had been a taxable enterprise. Deferred tax assets and liabilities for the tax effects of temporary differences for the nontaxable enterprises were established through an adjustment to income tax expense (benefit) during the period that the combinations were consummated (see Note 11):

Unaudited Pro Forma Information Year Ended September 30, 1997	
Income before extraordinary item.....	\$ 1,566
Pro forma income tax benefit.....	(214)
Pro forma income before extraordinary item.....	1,780
Extraordinary item.....	(269)
Pro forma net income.....	1,511
Preferred stock gain on redemption.....	280
Earnings applicable to common shares.....	<u>\$ 1,791</u>
Pro forma earnings per common share:	
Basic and diluted earnings per share (adjusted to give effect to preferred stock gain on redemption):	
Income before extraordinary item.....	\$ 0.11
Net income.....	<u>\$ 0.11</u>

Purchase Acquisitions

On September 23, 1999, the Company acquired all of the outstanding shares of RentaVision, Inc. ("RentaVision"), a rental-purchase chain located in 16 states with annual revenues of approximately \$75,000. The consideration paid in exchange for all the outstanding shares of RentaVision was \$73,874 consisting of \$68,774 in cash and 278,801 shares of the Company's common stock (unregistered shares subject to the provisions of Rule 144 of the Securities and Exchange Act). Pursuant to the terms of the purchase agreement, 181,201 shares of common stock equivalent to \$4,000 of the purchase price was placed in escrow subject to the terms and conditions of the escrow agreement to secure seller's representations and warranties and any purchase price adjustments. The acquisition was accounted for using the purchase method of accounting. RentaVision's assets and liabilities were recorded at their fair values as of the date of the acquisition. The purchase price is subject to adjustment pending completion of an audit of the closing date balance sheet and future rental revenue stream as defined in the purchase agreement. The final purchase price allocation is subject to refinement upon finalization of the purchase price and completion of a review of rental merchandise, property and equipment, intangibles and certain accrued liabilities. The excess of the acquisition cost over the estimated fair value of the net assets acquired ("goodwill") of \$83,712 is being amortized on a straight-line basis over 30 years. The total cost of the net assets acquired was

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

**4: MERGERS, ACQUISITIONS AND DISPOSALS, Continued:**

\$73,874 and consisted of assets of \$99,260 less liabilities assumed of \$25,168 and acquisition costs of \$218. Assets acquired (at fair value) other than goodwill consisted primarily of rental merchandise of \$12,267, non-compete agreement of \$1,000, customer contracts of \$1,200, cash of \$725, and other assets of \$356. Liabilities assumed (at fair value) consisted primarily of debt of \$21,527, accrued liabilities of \$2,684, and trade accounts payable of \$958. The Consolidated Statement of Operations for the year ended September 30, 1999 includes the results of operations of RentaVision since the date of acquisition.

On June 30, 1999, the Company acquired all the outstanding shares of America's Rent-To-Own Center, Inc., ("America's Rent-To-Own"). At the time of the acquisition, America's Rent-To-Own operated a chain of 21 rental-purchase stores located in Arkansas, Kansas, Missouri, and Oklahoma with annual revenues of approximately \$8,000. The consideration paid in exchange for all the outstanding shares of America's Rent-To-Own consisted of 231,140 shares of the Company's common stock (unregistered shares subject to the provisions of Rule 144 of the Securities and Exchange Act). Pursuant to the terms of the purchase agreement approximately \$800 or 32,454 shares of the Company's common stock were placed in escrow subject to the terms and conditions of the escrow agreement to secure seller's representations and warranties and any purchase price adjustments. As of September 30, 1999, the Company had not released any funds from the escrow account due to final settlement of the purchase price. The acquisition was accounted for using the purchase method of accounting. America's Rent-To-Own assets and liabilities were recorded at their fair value at the date of the acquisition. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$4,805 is being amortized on a straight line basis over 30 years. The total cost of the net assets acquired was \$4,838 and consisted of assets of \$7,231 less liabilities assumed of \$2,149 and acquisition costs of \$244. Assets acquired, other than goodwill (at fair value) consisted of rental merchandise of \$1,269, receivables of \$632, prepaid and other assets of \$65, a deferred tax asset of \$400, and a non-compete agreement of \$60. Liabilities assumed (at fair value) consisted of debt of \$1,295, accrued liabilities of \$474 and trade accounts payables of \$380. The Company is in the process of finalizing the purchase price allocation. The Consolidated Statement of Operations for the year ended September 30, 1999 includes the results of operations of America's Rent-To-Own since the date of acquisition.

In March, April, May, and August 1999, the Company purchased the rental merchandise and rental-purchase contracts of six rental-purchase stores located in Pennsylvania, North Carolina, Indiana, and Texas, respectively, with combined annual revenues of approximately \$1,550. The Company paid cash in exchange for the assets and each acquisition was accounted for using the purchase method of accounting. The acquired assets were recorded at their estimated fair values at the date of acquisition. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$602 is being amortized on a straight line basis over 20 years. The total cost of the net assets acquired was \$602. The Consolidated Statement of Operations for the year ended September 30, 1999 includes the results of operations for these stores from the date of acquisition.

On September 10, 1998, the Company purchased the rental merchandise and rental contracts of Cari Rentals, Inc. ("Cari"), a privately owned chain of 23 rental purchase stores located in Iowa, Missouri, Nebraska and South Dakota, with annual revenues of approximately \$7,700 in exchange for consideration of \$7,325 consisting of 15,620 shares of the Company's common stock (unregistered shares subject to the provisions of Rule 144 of the Securities and Exchange Act) and \$6,900 in cash. Pursuant to the terms of the acquisition, \$500 of the purchase price was placed in escrow subject to the terms and conditions of the escrow agreement. Pursuant to the terms of the escrow agreement, the balance of the purchase price was released to the sellers. The acquisition was accounted for using the purchase method of accounting. Cari's assets were recorded at their fair values as of the date of the acquisition. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$6,110 is being amortized on a straight-line basis over 30 years. The total cost of the net assets acquired was \$7,325 and consisted of assets of \$7,560 less acquisition costs of \$235. Assets acquired (at fair value) other than goodwill consisted primarily of rental merchandise of \$1,400 and a non-compete agreement of \$50. The Consolidated Statements of Operations for the years ended September 30, 1999 and 1998 include the results of operations of Cari since the date of the acquisition.

On July 21, 1998, the Company acquired all the outstanding shares of Fast Rentals, Inc. ("Fast Rentals"), a privately owned chain of eight rental purchase stores located in Alabama and Georgia with annual revenues of approximately \$3,600 in exchange for consideration of \$2,047 in cash. Pursuant to the terms of the acquisition, \$200 of the purchase price was placed in escrow, subject to the terms of the escrow agreement to satisfy sellers' representations and warranties and any purchase price adjustments. Pursuant to the terms of the escrow agreement, the balance of the purchase price was released to the sellers. The acquisition was accounted for using the purchase method of accounting. Fast Rentals' assets and liabilities were recorded at their fair values as of the date of the acquisition. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$2,321 is being amortized over 30 years on a straight-line basis. The total cost of the net assets acquired was \$2,047 and consisted of assets of \$3,061 less liabilities assumed of \$858 and acquisition costs of \$156. Assets acquired (at fair value) other than goodwill consisted primarily of rental merchandise of \$620, prepaid expenses of \$33, other assets of \$12 and a non-compete agreement of \$75. Liabilities assumed (at

## RENT-WAY, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

#### 4. MERGERS, ACQUISITIONS AND DISPOSALS, Continued:

fair value) consisted primarily of trade payables of \$29, accrued liabilities of \$43 and debt of \$786. The Consolidated Statements of Operations for the years ended September 30, 1999 and 1998 include the results of operations of Fast Rentals since the date of the acquisition.

On February 5, 1998, the Company acquired all the outstanding shares of Champion Rentals, Inc. ("Champion"). At the time of the acquisition, Champion operated a chain of 145 rental-purchase stores located in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, North Carolina, Ohio, South Carolina, Tennessee and Virginia with annual revenues of approximately \$75,000. The consideration paid in exchange for all the outstanding shares of Champion was \$69,050 in cash. Pursuant to terms of the purchase agreement \$2,500 of the purchase price was placed in escrow subject to the terms of the escrow agreement to satisfy sellers' representations and warranties and any purchase price adjustments. Per the terms of the escrow agreement, \$1,500 of the escrowed amount was released in September 1998, following the completion of an audit of Champion's closing date financial statements. As a result of this audit, \$900 of the released amount was given to the sellers with the balance being returned to the Company. The balance of \$1,000 was released February 5, 1999 per the terms of the escrow agreement. The sellers received \$800 of this amount and the balance was returned to the Company. The acquisition was accounted for using the purchase method of accounting. Champion's assets and liabilities were recorded at their fair values at the date of the acquisition. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$67,550 is being amortized on a straight-line basis over 30 years. The total costs of net assets acquired was \$69,050 and consisted of assets of \$91,030 less liabilities assumed of \$18,408 and acquisition costs of \$3,572. The acquisition of Champion was funded with borrowings drawn on the Company's existing senior credit facility. Assets acquired (at fair value), other than goodwill consisted primarily of rental merchandise of \$18,134, property and equipment of \$159, other assets of \$3,219, prepaid expenses of \$508, non-compete agreement of \$1,000 and customer contracts of \$460. Liabilities assumed (at fair value) consisted primarily of trade payables of \$3,925, accrued liabilities of \$2,356 and debt of \$12,127. The Consolidated Statements of Operations for the years ended September 30, 1999 and 1998 include the results of operations of Champion since the date of the acquisition.

On January 7, 1998, the Company completed the asset purchase of South Carolina Rentals, Inc., Paradise Valley Holdings, Inc., and L & B Rents, Inc., (collectively, "Ace Rentals"), assuming effective control of the results of operations as of January 1, 1998. At the time of the acquisition, Ace Rentals operated a chain of 50 rental-purchase stores located in California and South Carolina with annual revenues of approximately \$22,000. The consideration paid in exchange for the assets of Ace Rentals was \$25,348 in cash. Pursuant to the terms of the purchase agreement, \$750 of the purchase price was placed in escrow, subject to the terms of the escrow agreement to satisfy seller's representations and warranties and any purchase price adjustments. In May 1998, \$375 of the \$750 escrow was released in accordance with the terms and conditions of the escrow agreement. As of September 30, 1999, the remaining balance is still held in escrow. The acquisition was accounted for using the purchase method of accounting. Ace Rentals' assets and certain liabilities were recorded at their fair values at the date of the acquisition. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$21,495 is being amortized on a straight-line basis over 30 years. The total costs of net assets acquired was \$25,348 and consisted of assets of \$26,767 less a liability assumed of \$478 and acquisition costs of \$941. The acquisition of Ace Rentals was primarily funded with proceeds received in connection with the Company's public stock offering (see Note 3) with the balance being drawn on the Company's existing senior credit facility. Assets acquired (at fair value) other than goodwill consisted primarily of rental merchandise of \$4,383, property and equipment of \$249, non-compete agreement of \$500 and \$140 in customer contracts. The liability assumed (at fair value) was \$478 of vehicle related debt. The Consolidated Statements of Operations for the years ended September 30, 1999 and 1998 include the results of operations of Ace Rentals since January 1, 1998.

During calendar year 1998, the Company also purchased from six separate entities the rental merchandise and contracts of 17 rental-purchase stores located in Arizona, Florida, Texas, and Washington. The Company paid cash in exchange for the assets and each acquisition was recorded using the purchase method of accounting. The acquired assets were recorded at their fair values at the date of the acquisition. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$3,052 is being amortized on a straight-line basis over 30 years. The total cost of net assets acquired was \$4,903. The Consolidated Statements of Operations for the years ended September 30, 1999 and 1998 include the results of operations for these stores from the date of acquisition.

On January 24, 1997, the Company signed a definitive purchase agreement to acquire all the outstanding shares of Perry Electronics, Inc. d/b/a Rental King ("Rental King"). On February 6, 1997, the Company consummated the transaction and acquired all the outstanding shares of Rental King, assuming effective control of the results of operations as of February 1, 1997. At the time of acquisition, Rental King operated a chain of seventy rental-purchase stores in Colorado, Florida, Indiana, Kentucky, Michigan, Ohio and West Virginia with annual revenues of approximately \$24,000. The consideration paid in exchange for all the outstanding shares of Rental King was \$17,285 in cash. Pursuant to the terms of the purchase agreement, \$2,000 of the purchase price was placed in

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

**4. MERGERS, ACQUISITIONS AND DISPOSALS, Continued:**

escrow, subject to the terms of the escrow agreement to satisfy seller's representations and warranties and any purchase price adjustments. In June 1997, the full amount of the escrow account was released. The acquisition was accounted for using the purchase method of accounting. Rental King's assets and liabilities were recorded at their fair values at the time of the acquisition. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$17,312 is being amortized on a straight-line basis over 20 years. The total costs of the net assets acquired was \$17,285 and consisted of assets of \$25,290 less liabilities assumed of \$6,337 and acquisition costs of \$1,668. The acquisition of Rental King was primarily funded by the net proceeds received on a private placement of \$20,000 in subordinated convertible debentures (see Note 7). The balance of the cash paid on closing was drawn upon the Company's existing line of credit. Assets acquired (at fair value) other than goodwill consisted primarily of rental merchandise of \$6,386, property and equipment of \$745, other assets of \$347 and non-compete agreements of \$500. Liabilities assumed (at fair value) consisted primarily of trade payables of \$489, accrued liabilities of \$2,085, bank debt of \$2,939 and notes payable of \$824. The Consolidated Statements of Operations for the years ended September 30, 1999, 1998 and 1997 include the results of operations of Rental King since the date of the acquisition.

On January 2, 1997, the Company acquired all the outstanding shares of Bill Coleman TV, Inc., ("Coleman"), a privately owned chain of fifteen rental-purchase stores operating in Michigan with annual revenues of approximately \$8,000, in exchange for consideration consisting of \$2,680 in cash and an option to purchase 25,000 shares of the Company's common stock at an exercise price of \$8.875 per share with a fair market value of \$108. The 25,000 stock options are 100% exercisable and expire five years from the date of the grant. The acquisition was accounted for using the purchase method of accounting. Coleman's assets and liabilities were recorded at their fair values as of the acquisition date. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$3,797 is being amortized on a straight-line basis over 20 years. The total cost of the net assets acquired was \$2,788 (\$2,680 in cash and \$108 in stock options) and consisted of assets of \$7,992 less liabilities assumed of \$4,549 and acquisition costs of \$655. Assets acquired (at fair value) other than goodwill, consisted primarily of rental merchandise of \$2,401, property and equipment of \$42, a note receivable of \$506, a non-compete agreement of \$300 and other assets of \$946. Liabilities assumed (at fair value) consisted primarily of trade accounts payable of \$1,838, debt of \$2,474 and note payable of \$237. The Consolidated Statements of Operations for the years ended September 30, 1999, 1998 and 1997 include the operations of Coleman since the date of the acquisition.

In July and September 1997, the Company purchased the rental merchandise and rental-purchase contracts of seven rental-purchase stores located in Pennsylvania, Maryland, and Virginia, with combined annual revenues of approximately \$4,300. The Company paid cash in exchange for the assets and each acquisition was recorded using the purchase method of accounting. The acquired assets were recorded at their fair values at the date of acquisition. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$2,748 is being amortized on a straight-line basis over 20 years. The total cost of the net assets acquired was \$3,810 and consisted primarily of assets of \$3,978 less acquisition costs of \$168. The Consolidated Statements of Operations for the years ended September 30, 1999, 1998 and 1997 include the operating results for these stores since the respective dates of acquisition.

On January 2, 1997, the Company completed the acquisition of 28 stores located in 4 states from Fastway Rentals, Inc. for an aggregate purchase price of \$11,900. The Company purchased the assets of 27 rent-to-own stores from B&L Concepts, Inc. ("B+L") on January 6, 1997 for total consideration of approximately \$13,800 consisting of cash of approximately \$10,800 and a \$3,000 convertible note. Additionally, during 1997, the Company acquired 60 stores in 8 unrelated transactions for an aggregate purchase price of approximately \$32,000 consisting of cash of \$27,900 and notes totaling \$4,100. Each acquisition was recorded using the purchase method of accounting. The acquired assets and liabilities were recorded at their fair values at the date of the acquisition. The excess of the acquisition cost over the fair value of net assets acquired, ("goodwill") of \$44,515 is being amortized on a straight-line basis over 20 years. The total cost of net assets acquired was \$57,729 and consisted of assets of \$64,974 less liabilities assumed of \$7,245. Assets acquired (at fair value) other than goodwill consisted primarily of rental merchandise of \$17,211, property and equipment of \$2,359, and other assets of \$890. Liabilities assumed (at fair value) consisted primarily of trade payables of \$1,755, notes payable of \$5,152, and income taxes payable of \$338. The Consolidated Statements of Operations for the years ended September 30, 1999, 1998, and 1997 include the results of operations for these stores from the date of acquisition.

The following are unaudited pro forma results of operations for the years ended September 30, 1999 and 1998 assuming the acquisitions of Ace Rentals, Champion, and RentaVision had occurred on October 1, 1998 and 1997, respectively. The unaudited pro forma information does not include the results of operations of the Fast Rentals Acquisition in July 1998, the Cari acquisition in September 1998, and the America's Rent-To-Own acquisition in June 1999, which were not significant. The results are not necessarily indicative of future operations or what would have occurred had the acquisitions been consummated as of October 1, 1998 and 1997.

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(all dollars in thousands, except per share data)

4. MERGERS, ACQUISITIONS AND DISPOSALS, Continued:

	Unaudited Pro Forma Information	
	Years Ended September 30,	
	1999	1998
Total revenues .....	\$ 569,905	\$ 527,613
Net income (loss).....	\$ 14,631	\$ (152)
Diluted earnings (loss) per common share:		
Income (loss) before extraordinary item .....	\$ 0.68	\$ (0.01)
Net income (loss).....	\$ 0.66	\$ (0.01)

Disposals

On September 30, 1998, the Company entered into an asset purchase and exchange agreement with SKC Enterprises, Inc. ("SKC") whereby the Company exchanged five stores and approximately \$1,100 in cash for seven SKC stores. The Company recognized a gain of approximately \$300 as a result of the transaction with SKC. The following table summarizes the book value of the assets disposed of and the fair value of the assets purchased from SKC:

<u>Book Value of Assets Sold to SKC</u>	
Rental merchandise.....	\$ 837
Property and equipment.....	127
	<u>\$ 964</u>
<u>Fair Value of Assets Purchased from SKC</u>	
Rental merchandise.....	\$ 1,147
Property and equipment.....	91
Intangible assets.....	1,142
Other assets.....	5
	<u>\$ 2,385</u>

During 1997, the Company sold eight stores for \$3,032. In connection with the transaction, the Company sold assets with a net book value of \$2,082, received cash of \$3,032, and recorded a gain of \$950.

5. RENTAL MERCHANDISE AND PROPERTY AND EQUIPMENT:

Cost and accumulated depreciation of rental merchandise consists of the following:

	September 30,	
	1999	1998
Cost .....	\$ 313,304	\$ 268,509
Less accumulated depreciation .....	111,159	92,487
	<u>\$ 202,145</u>	<u>\$ 176,022</u>

The Company uses a direct-ship policy from their vendors to the stores. As a result, the Company has eliminated the need for internal warehousing and distribution. The Company has acquired various entities, including Home Choice and RentaVision, that used internal warehousing and distribution. The Company has eliminated these warehouses and has applied direct-ship policies to these stores. This policy has minimized the amount of rental merchandise not on rent. On-rent and held for rent levels of net rental merchandise consists of the following:

	September 30,	
	1999	1998
On-rent merchandise.....	\$ 226,825	\$ 185,372
Held for rent merchandise.....	86,479	83,137
	<u>\$ 313,304</u>	<u>\$ 268,509</u>

The Company uses the direct write-off method in accounting for losses (see Note 1). These losses are recorded in other operating expenses and were incurred as follows:

	Years ended September 30,		
	1999	1998	1997
Lost merchandise.....	\$ 2,048	\$ 1,380	\$ 393
Stolen merchandise.....	12,077	12,071	10,338
Discarded merchandise.....	3,381	1,541	1,055
	<u>\$ 17,506</u>	<u>\$ 14,992</u>	<u>\$ 11,786</u>

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

5. RENTAL MERCHANDISE AND PROPERTY AND EQUIPMENT, Continued:

Property and equipment consists of the following:

	September 30,	
	1999	1998
Signs.....	\$ 7,405	\$ 5,431
Transportation equipment.....	4,551	3,201
Furniture and fixtures.....	25,341	17,626
Leasehold improvements.....	27,189	19,825
Buildings.....	3,968	4,167
Construction in progress.....	351	—
Land.....	2,307	2,423
	71,112	52,673
Less accumulated depreciation and amortization.....	20,534	14,154
	<u>\$ 50,578</u>	<u>\$ 38,519</u>

6. OTHER LIABILITIES:

Other liabilities consist of the following:

	September 30,	
	1999	1998
Accrued salaries, wages and payroll taxes.....	\$ 4,205	\$ 4,810
Accrued property taxes.....	1,536	2,680
Sales taxes payable.....	2,952	2,772
Accrued interest.....	639	1,077
Accrued bonuses.....	344	190
Other.....	6,185	11,691
	<u>\$ 15,861</u>	<u>\$ 23,220</u>

7. DEBT:

Debt consists of the following:

	September 30,	
	1999	1998
Senior Credit Facility.....	\$ 268,000	\$ 157,064
Convertible Subordinated Debentures.....	20,000	20,000
Notes Payable.....	130	2,539
	<u>\$ 288,130</u>	<u>\$ 179,603</u>

On September 23, 1999, the Company amended its existing collateralized term loan and revolving credit facility ("Senior Credit Facility") with a syndicate of banks led by National City Bank of Pennsylvania (the "Amended Facility"). The Amended Facility, co-led by National City Bank, acting as administrative agent, Bank of America, N.A., acting as documentation agent, and Bank of Montreal and Harris Trust and Savings Bank, acting as syndication agents, provides for loans and letters of credit of up to \$325,000 (revolving notes and letters of credit \$100,000, Term Loans A \$125,000 and Term Loans B \$100,000). The syndicate members and their ratable share of the Amended Facility are:

National City Bank of Pennsylvania.....	10.7692%
National City Bank, Cleveland.....	15.3846%
Bank of America, N.A.....	10.7692%
Harris Trust and Savings Bank.....	10.7692%
Bank of Montreal.....	15.3846%
Firststar Bank, National Association.....	7.6923%
LaSalle Bank, National Association.....	6.9231%
Sun Trust Bank, Central Florida, National Association.....	6.1538%
Manufacturers and Traders Trust Company.....	6.1538%
PNC Bank, National Association.....	5.3846%
Bank Austria, Creitanstalt Corporate Finance, Inc.....	4.6154%

Under the Amended Facility, the Company may borrow funds under a base rate option plan or euro-rate option plan. Under the base rate option plan, the Company may borrow funds based on a spread of prime rate plus 0.0% to 1.5% (prime rate at September 30, 1999 of 8.25%). The actual spread is determined based on the ratio of debt to cash flows from operations during the period. Under the euro-rate option, the Company may borrow funds based on a spread of the London Interbank Offer Rate, ("LIBOR") plus 150 to 300 basis points (LIBOR at September 30, 1999 of 5.514%). The actual spread is determined based on the ratio of debt to cash flow generated from operations during the period. Borrowings under the euro-rate option require the Company to select a fixed interest period during which the euro-rate is applicable with the borrowed amount not to be repaid prior to the last day of the selected interest period. In addition, borrowing tranches under the euro-rate option must be in multiples of \$1,000. Commitment fees associated with

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

7. DEBT, Continued:

the Amended Facility are equal to 0.375% for each banks' commitment starting with this facility. Borrowings under the base-rate option are at the Prime interest rate plus 50 basis points. These borrowings may be repaid at any time.

As of September 30, 1999, the Company's debt under both the euro-rate option and base-rate option plans were as follows:

<u>Borrowing option plan</u>	<u>Amount</u>	<u>Rate</u>	<u>Expiration Date</u>
Euro-rate tranche.....	\$ 125,000	8.01375%	12/31/99
Euro-rate tranche.....	100,000	8.38250%	10/25/99
Euro-rate tranche.....	40,000	8.01375%	12/31/99
Base-rate .....	3,000	9.25000%	09/30/04
	<u>\$ 268,000</u>		

The principal amount of the Term Notes A under the Amended Facility (with maximum borrowings of \$125,000 outstanding at September 30, 1999) shall be payable in quarterly payments due on the last day of each December, March, June, and September, beginning with the quarter ending December 31, 1999, and as follows:

<u>Quarter (s) Ending on Following Date or In The Following Period</u>	<u>Amount of Quarterly Payment of Principal Due on Each Payment Date</u>
12-31-99 through 9-30-00 .....	\$ 3,750
12-31-00 through 9-30-01 .....	5,000
12-31-01 through 9-30-02 .....	6,250
12-31-02 through 9-30-03 .....	7,500
12-31-03 through 9-30-04 .....	8,750

The principal amount of each of the Term Notes B under the Amended Facility (with maximum borrowings of \$100,000 outstanding at September 30, 1999) shall be payable in quarterly payments each in the amount of \$250 due on the last day of each December, March, June, and September, beginning with the quarter ending December 31, 1999, and continuing through and including September 30, 2004, followed by two annual payments on September 30, 2005 and September 30, 2006, each in the amount of \$47,500.

At September 30, 1999, the Company had \$43,000 principal amount of the revolving credit facility outstanding under the Amended Facility and \$1,700 in letters of credit outstanding (see Note 9). At September 30, 1999 there was \$55,300 of unused revolving notes and letters of credit available under the Amended Facility.

The Amended Facility requires the Company to meet certain financial covenants and ratios including maximum leverage, minimum interest coverage, minimum tangible net worth, fixed charge coverage, and rental merchandise usage ratios. In addition, the Company must meet requirements regarding monthly, quarterly, and annual financial reporting. The Amended Facility also contains non-financial covenants, which restrict actions of the Company with respect to the payment of dividends, acquisitions, mergers, disposition of assets or subsidiaries, issuance of capital stock, and capital expenditures. The Company may at any time repay outstanding borrowings, in whole or part, without premium or penalty, except with respect to restrictions identified with the selection of the euro-rate option.

The Senior Credit Facility (the "Prior Facility") prior to the Amended Facility was with a syndicate of banks led by National City Bank of Pennsylvania, NationsBank, N.A., and Harris Trust and Savings Bank and was signed on December 10, 1998. On March 10, 1999, the Company made two Credit Agreement Joinders (the "Joinders") to the Prior Facility. The Joinders were made by PNC Bank, National Association and Bank Austria Creditanstalt Corporate Finance, Inc. (the "New Banks"). Each of the New Banks agreed to make a revolving credit commitment in the amount of \$3,889 and a term loan commitment in the amount of \$4,861. The Joinders increased the term loans available under the Prior Facility to \$125,000 and the revolving loans and letters of credit available under the Prior Facility to \$100,000. Following the Joinders, the syndicate members and their ratable share of the Prior Facility were as follows:

National City Bank of Pennsylvania.....	15.5556%
NationsBank, N.A. ....	15.5556%
Harris Trust and Savings Bank .....	15.5556%
Firststar Bank, N.A. ....	11.1111%
LaSalle National Bank.....	10.0000%
SunTrust Bank, Central Florida, National Association .....	8.8889%
Manufacturers and Traders Trust Company.....	8.8889%
Mercantile Bank of St. Louis, N.A. ....	6.6667%
PNC Bank, National Association.....	3.8889%
Bank Austria Creditanstalt Corporate Finance, Inc.....	3.8889%

## RENT-WAY, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

#### 7. DEBT, Continued:

On January 1, 1999, the Company amended the Prior Facility to add Rent-Way of TTIG, L.P., an Indiana limited partnership, as a co-borrower. The amendment also caused Rent-Way of Tomorrow, Inc., Rent-Way of Michigan, Inc., and Rent-Way Developments, Inc., new subsidiaries of the Company incorporated in Delaware, to become guarantors of the Prior Facility.

The Prior Facility required the Company to comply with certain covenants, including financial covenants. These covenants generally restricted the Company from incurring additional indebtedness, granting additional liens on its assets, making dividends or distributions, disposing of assets other than in the ordinary course, issuing additional stock, making additional acquisitions or making capital expenditures, in each case subject to certain exceptions. Under the Prior Facility, the Company was restricted from incurring additional indebtedness except additional purchase money indebtedness not exceeding \$100, subordinated intercompany indebtedness, indebtedness incurred in connection with certain acquisitions permitted under the Facility, certain capitalized leases or purchases of fixed assets with payments that do not exceed \$10,000 in the aggregate in any fiscal year, and any other lease, which is not a capitalized lease, or the rental of any real or personal property of another entity with payments that do not (other than for leases of retail store sites and motor vehicles) exceed \$250 in the aggregate in any fiscal year. The Company was also required to comply with certain financial covenants including maximum leverage, minimum interest coverage, minimum net worth, and minimum fixed charge coverage ratios.

As a result of entering into the Prior Facility, the Company wrote off the remaining balance of deferred financing costs associated with Rent-Way's and Home Choice's previous credit facilities. The amount of deferred finance costs, \$865 (\$519 net of 40% tax) is shown as an extraordinary item on the Company's Consolidated Statement of Operations for the year ended September 30, 1999.

The Senior Credit Facility existing in fiscal 1998 (the "1998 Facility") of Rent-Way was with a syndicate of banks led by National City Bank of Pennsylvania, provided for loans and letters of credit up to \$120,000 and was signed on February 5, 1998. The syndicate was composed of eight banks, with National City Bank committed for a 15.00% ratable share, NationsBank, N.A., Harris Trust and Savings Bank, LaSalle National Bank, Manufacturers and Traders Trust Company, and Star Bank, N.A. committed for an equal ratable share of 14.17%, and Sun Trust Bank, Central Florida, National Association and CoreStates Bank, N.A. committed for an equal ratable share of 7.08%. The 1998 Facility provided for borrowings at the prime rate plus 0.0% to 0.5% or borrowings under an euro-rate option based on a spread of LIBOR plus 100 to 200 basis points, for a fixed interest period. As of September 30, 1998, the Company had \$80,000 of floating rate debt under the euro-rate option and \$17,264 of floating rate debt under the base rate option, with interest rates of 7.594% and 8.750%, respectively. The 1998 Facility required the Company to meet certain financial covenants and ratios, including maximum leverage, minimum interest coverage, and minimum tangible net worth ratios. In addition, the Company was required to meet requirements regarding monthly, quarterly, and annual financial reporting. The 1998 Facility also contained covenants which prohibited the actions of the Company with respect to the payment of dividends, acquisitions, mergers, disposition of assets or subsidiaries, issuance of capital stock, and capital expenditures. The Company was permitted, at any time, to repay outstanding borrowings, in whole or part, without premium or penalty, except with respect to restrictions on the selection of the euro-rate interest option.

On February 26, 1998, immediately following the Alreco/RTO merger (see Note 4), Home Choice entered into a new revolving credit agreement (the "Coamerica Credit Agreement") with Coamerica Bank, as lender and agent for certain other lenders, which provided for a \$50,000 collateralized three-year credit facility. The Coamerica Credit Agreement replaced the existing credit agreements of Alreco and RTO. The Coamerica Credit Agreement provided for interest rates based on a base rate which was the greater of the agent's prime rate, the federal funds rate plus 100 basis points, or a "Eurodollar Rate", plus an applicable margin. Under the Coamerica Credit Agreement, Home Choice had the option, provided that certain conditions were met, to obtain an increase in the amount available under the Coamerica Credit Agreement up to an aggregate amount of \$100,000. The Coamerica Credit Agreement was collateralized by substantially all assets of Home Choice and by a pledge of the stock of Home Choice's subsidiaries. On April 1, 1998, borrowings available under the Coamerica Credit Agreement were increased to \$60,000. On June 22, 1998 Home Choice signed the First Amendment to the Coamerica Agreement whereby the borrowings available were increased to \$80,000 and additional financial covenants were provided. On August 17, 1998 Home Choice signed the second amendment to the Coamerica Credit Agreement which modified the financial covenants. As of September 30, 1998 Home Choice was in compliance with these modified financial covenants. As of September 30, 1998, Home Choice had \$59,800 outstanding under this agreement.

The Company's \$20,000 Convertible Subordinated Debentures ("Debentures") due February 1, 2007 are convertible, at any time, into shares of common stock, without par value, of the Company at a conversion price of \$13.37 per share. The Debentures are subject to redemption at the option of the Company on and after February 5, 2000 at a price of 103%. The redemption price will decrease at a rate of 1% per year, reaching a price of 100% in the year 2003 and remain fixed until the date of maturity. The indebtedness evidenced by the Debentures is subordinated and junior in right of payment to all senior indebtedness. The Debentures bear an annual interest

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

7. DEBT, Continued:

rate of 7% with semi-annual payments in August and February, beginning August 1, 1997. The terms of the Debentures require the Company to meet certain annual financial reporting obligations. In addition, the Company must deliver to the trustee compliance certificates representing management's compliance to all conditions and covenants in the indenture governing the Debentures. In addition, the Debentures contain covenants which prohibit the Company with respect to the payment of dividends and other distributions.

The Company's Notes Payable consists of the following:

	September 30,	
	1999	1998
Note payable to Zurn Industries, Inc. with no interest payable June 1, 1999.....	\$ —	\$ 1,650
Note payable to an individual with an interest rate of 18.0% payable in monthly installments of \$3 through December 2006 .....	120	128
Note payable to individuals with an interest rate of 9.25% payable in equal annual installments of \$700, plus accrued interest through January 3, 1999 .....	—	700
Note payable to individuals with interest rates at 10% and 20%; payments ranging from \$1,822 to interest only; same maturing on May 2002 and others no stated maturity date .....	—	61
Vehicle notes payable .....	10	—
	<u>\$ 130</u>	<u>\$ 2,539</u>

The Company's weighted average interest rate was 7.732%, 7.784% and 8.517% for the years ended September 30, 1999, 1998 and 1997, respectively.

At September 30, 1999, the carrying values and the estimated fair values of the Company's significant fixed interest debt instruments are as follows:

	September 30, 1999	
	Carrying Values	Estimated Fair Values
Convertible Subordinated Debentures 7% ....	<u>\$ 20,000</u>	<u>\$ 21,516</u>
	<u>\$ 20,000</u>	<u>\$ 21,516</u>

At September 30, 1999, aggregate annual maturities of debt are as follows:

	September 30, 1999	
2000 .....	\$	16,000
2001 .....		21,000
2002 .....		26,000
2003 .....		31,000
2004 .....		79,000
Thereafter .....		115,130
	<u>\$</u>	<u>288,130</u>

At September 30, 1999 and 1998, book overdrafts of \$2,994 and \$7,802, respectively, were included in accounts payable in the accompanying Consolidated Balance Sheets.

8. DERIVATIVE FINANCIAL INSTRUMENTS:

The Company uses derivative financial instruments to reduce the impact on interest expense of fluctuations in interest rates on a portion of the Amended Facility (see Note 7). Interest rate expense under the swap agreements, which qualify for hedge accounting, is recorded as the net effective interest rate of the hedged transactions. The Company does not enter into derivative financial instruments for trading or speculative purposes. As of September 30, 1999, the Company had in place eight interest rate swaps, under which the Company agreed with counterparties to exchange, at quarterly intervals, the interest payments on a variable pay rate of the three-month LIBOR and a fixed pay rate for the notional amount of the interest rate swap agreements. The Company actively evaluates the creditworthiness of the financial institutions which are counterparties to interest rate swap agreements, and it does not appear that any counterparty will fail to meet their obligation. The following table illustrates the notional amounts outstanding, maturity dates and the fixed pay and variable receive rates of each of the interest rate swap agreements at September 30, 1999:

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

8. DERIVATIVE FINANCIAL INSTRUMENTS, Continued:

	<u>Notional Amount</u>	<u>Maturity Date</u>	<u>Fixed Pay Rate</u>	<u>Variable Receive Rate</u>
Interest rate swap, National City Bank .....	\$ 30,000	May 2003	5.965%	5.514%
Interest rate swap, Bank of America .....	\$ 20,000	May 2003	5.760%	5.514%
Interest rate swap, Manufacturers and Traders Trust Company .....	\$ 10,000	May 2003	5.925%	5.514%
Interest rate swap, Harris Bank .....	\$ 20,000	Dec. 2003	5.090%	5.514%
Interest rate swap, SunTrust Bank .....	\$ 10,000	Dec. 2003	5.105%	5.514%
Interest rate swap, LaSalle Bank .....	\$ 10,000	Dec. 2003	5.095%	5.514%
Interest rate swap, Bank of America .....	\$ 10,000	Dec. 2003	5.120%	5.514%
Interest rate swap, Harris Bank .....	\$ 10,000	Dec. 2003	5.120%	5.514%

The fair value of the interest rate swap agreements based on settlement cost as estimated by a dealer as of September 30, 1999 are as follows:

	<u>Notional Amount</u>	<u>Fair Value</u>
Interest rate swap, National City Bank .....	\$ 30,000	\$ 278
Interest rate swap, Bank of America .....	\$ 20,000	\$ (21)
Interest rate swap, Manufacturers and Traders Trust Company .....	\$ 10,000	\$ 118
Interest rate swap, Harris Bank .....	\$ 20,000	\$ 943
Interest rate swap, SunTrust Bank .....	\$ 10,000	\$ 485
Interest rate swap, LaSalle Bank .....	\$ 10,000	\$ 465
Interest rate swap, Bank of America .....	\$ 10,000	\$ 458
Interest rate swap, Harris Bank .....	\$ 10,000	\$ 460

9. COMMITMENTS AND CONTINGENCIES:

The Company leases substantially all of its retail stores under non-cancelable agreements generally for initial periods ranging from three to five years. The store leases generally contain renewal options for one or more periods of three to five years. Most leases require the payment of taxes, insurance and maintenance costs by the Company. At September 30, 1999, future minimum rental payments under non-cancelable operating leases are as follows:

	<u>September 30, 1999</u>	
2000 .....	\$	28,883
2001 .....		22,688
2002 .....		15,729
2003 .....		8,710
Thereafter .....		5,268
Total minimum payments required .....	\$	<u>81,378</u>

Rent expense under operating leases for the years ended September 30, 1999, 1998, and 1997 was \$26,495, \$25,737, and \$18,197, respectively.

The Company is subject to legal proceedings and claims in the ordinary course of its business that have not been finally adjudicated. Certain of these cases have resulted in contingent liabilities ranging from \$2,200 to \$4,100. The majority of such claims are, in the opinion of management, covered by insurance policies or indemnification agreements and therefore should not have a material effect on the consolidated financial position, results of operations or cash flows of the Company. Additional claims exist in the range of \$1,300 to \$1,400 for which management believes it has meritorious defenses but for which the likelihood of an unfavorable outcome is currently not determinable. Additionally, claims exist for which management is not able to estimate a potential loss. In management's opinion, each of these claims will either be indemnified by the former shareholders of companies it has acquired or covered by insurance policies and therefore will not have a material effect on the consolidated financial position, results of operations or cash flows of the Company.

In fiscal 2000, the Company plans to construct a 30,000 square foot addition to its current corporate headquarters facility. The Company estimates the cost at approximately \$3,500. The Company plans to fund this project with borrowings on its Senior Credit Facility.

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

9. COMMITMENTS AND CONTINGENCIES, Continued:

The Company is self-insured for certain losses related to workers' compensation, employee medical and employee dental claims. The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of claims. Self-insurance reserves are accrued based upon the Company's estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry and the Company's historical experience. The Company has obtained letters of credit of \$1,700 to guarantee the payment of future claims. The face value of the letters of credit approximate their market value at September 30, 1999.

Also, see Note 12 for related party commitments.

10. REDEEMABLE PREFERRED STOCK:

On July 21, 1995, in connection with the acquisition of McKenzie Leasing Corporation, the Company issued 27,500 shares of Series A Redeemable Preferred Stock ("Preferred Stock"). In preference to shares of common stock, each share was entitled to receive annual cumulative cash dividends in the amount of 7% payable in quarterly installments on the first day of January, April, July and October. During 1997 the Company declared and paid dividends totaling \$30. Holders of the Preferred Stock had no voting rights; however, there were certain exceptions including the right to eight votes per share if the Company failed to pay dividends for two quarters.

The Company was required to redeem all outstanding Preferred Stock on June 30, 2006 at a redemption price of \$100 per share plus any accrued or unpaid dividends. The Company had the right to redeem the Preferred Stock at any time at the rate of \$100 per share plus any accrued or unpaid dividends. The Company also entered into option agreements with the holders of the Preferred Stock which provided the holders with mandatory redemption rights. During 1996 the following redemptions of the Series A Preferred Stock were made: \$429 in January, 1996, \$68 in February, 1996, and \$1,132 in April, 1996. In addition, on November 26, 1996, the Company redeemed the remaining 11,207 outstanding shares. These shares were redeemed at a twenty-five percent discount for an aggregate purchase price of \$841 and have reinstated the status of authorized and unissued preferred shares undesignated as to series. As a result of redemption on a discounted basis, a net gain on redemption of \$280 was recognized. This amount is added to net income in the calculation of earnings per share.

11. INCOME TAXES:

The Company's income tax expense (benefit) consists of the following components:

	For the Years Ended September 30.		
	1999	1998	1997
Current expense:			
Federal .....	\$ 3,499	\$ 4,126	\$ 4,604
State and local .....	987	1,236	1,379
	<u>4,486</u>	<u>5,362</u>	<u>5,983</u>
Deferred expense (benefit):			
Federal .....	7,843	(438)	(828)
State and local .....	2,905	(153)	(289)
	<u>10,748</u>	<u>(591)</u>	<u>(1,117)</u>
Income tax expense .....	<u>\$ 15,234</u>	<u>\$ 4,771</u>	<u>\$ 4,866</u>

A reconciliation of the income tax expense compared with the amount at the U.S. statutory tax rate of 34% (35% for 1999) is shown below:

	For the Years Ended September 30.		
	1999	1998	1997
Tax provision at U.S. statutory rate .....	\$ 10,618	\$ 997	\$ 2,187
State and local income taxes, net of federal benefit .....	2,530	715	719
Nondeductible goodwill and purchase contracts .....	881	999	1,243
Nondeductible acquisition costs .....	2,625	1,917	198
Reserves not previously benefited .....	(1,520)	-	-
Other .....	100	143	519
Income tax expense .....	<u>\$ 15,234</u>	<u>\$ 4,771</u>	<u>\$ 4,866</u>

**RENT-WAY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(all dollars in thousands, except per share data)

**11. INCOME TAXES, Continued:**

At September 30, 1999 and 1998, the components of the net deferred tax asset (liability) are as follows:

	1999	1998
Rental merchandise .....	\$ (21,339)	\$ (12,109)
Property and equipment .....	2,350	181
Operating loss carry forwards .....	8,959	12,969
Intangibles .....	(1,115)	206
Other .....	92	1,129
Tax credits .....	5,835	2,926
Net deferred tax asset(liability) .....	<u>\$ (5,218)</u>	<u>\$ 5,301</u>

In 1999, a net deferred tax asset of approximately \$229 was established upon the acquisition of America's Rent-To-Own for the difference in the tax and book basis of the net assets acquired.

As of September 30, 1999, the Company has net operating loss carry-forwards of approximately \$22,731 for income tax purposes, expiring in years through 2018. These losses are subject to annual limitations under Internal Revenue Code Section 382 due to prior ownership changes. Additionally, as of September 30, 1999, the Company has alternative minimum tax credits of approximately \$5,835.

**12. RELATED PARTY TRANSACTIONS:**

During fiscal years ended September 30, 1999, 1998 and 1997 the Company leased two locations from a principal shareholder or a company controlled by a principal shareholder. Rent paid during these years related to these leases was \$65, \$87, and \$92, respectively.

The Company has entered into employment contracts with certain directors and executive officers. The agreements are for a three year term commencing October 1, 1995. The Company paid \$1,282 and \$882 related to these agreements for the years ended September 30, 1998 and 1997, respectively.

In connection with the acquisition of D.A.M.S.L. Corp. ("DAMSL") in fiscal 1994, the Company entered into consulting and non-compete agreements with the former shareholders of DAMSL. The remaining payment terms for the consulting and non-compete agreements is \$319 for 2000.

In connection with the acquisition of McKenzie Leasing Corporation ("MLC") in fiscal 1995, the Company entered into consulting and non-compete agreements with McKenzie Development Corporation ("MDC"), an affiliate of MLC and the principal shareholders of MDC, the former owners of MLC. The consulting and non-compete agreements are for seven years and have payment terms of \$1,250 on July 21, 1995 and \$200 per year for each of the following seven years.

In connection with the merger of Alreco and RTO, Alreco entered into a non-compete agreement and consulting agreement dated February 26, 1998 with Michael D. Walts, the Chairman, President and principal shareholder of Alreco. The consulting and non-compete agreement is for a term of five years and has payment terms in the amount of \$400 for each of the next five, twelve month periods. The Company paid \$400 and \$200 on this agreement during fiscal 1999 and 1998, respectively.

During the year ended December 31, 1997, Home Choice issued common stock to settle notes payable totaling \$690 to certain stockholders.

**13. STOCK OPTIONS:**

In March 1999, the Board of Directors of the Company adopted, and the shareholders approved, the Rent-Way, Inc. 1999 Stock Option Plan (the "1999 Plan") which authorizes the issuance of up to 2,500,000 shares of common stock pursuant to stock options granted to officers, directors, key employees, consultants, and advisors of the Company. The option exercise price will be at least equal to the fair market value of the Company's common stock on the grant date. The 1999 Plan will expire in March 2009 unless terminated earlier by the Board of Directors. The authorized number of shares, the exercise price of outstanding options, and the number of shares under option are subject to appropriate adjustment for stock dividends, stock splits, reverse stock splits, recapitalizations, and similar transactions. The 1999 Plan is administered by the Stock Option Committee of the Board of Directors who select the optionees and determine the terms and provisions of each option grant within the parameters set forth in the 1999 Plan. As of September 30, 1999, 550,000 options at an exercise price of \$27.88 were granted under the 1999 Plan.

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

13. STOCK OPTIONS, Continued:

In June 1992, the Board of Directors of the Company adopted, and the shareholders have approved, the Rent-Way, Inc. Stock Option Plan of 1992 (the "1992 Plan") which authorizes the issuance of up to 600,000 shares of common stock pursuant to stock options granted to officers, directors, key employees, consultants, and advisors of the Company. The option exercise price will be at least equal to the fair market value of the Company's common stock on the grant date. The 1992 Plan will expire in June 2002 unless terminated earlier by the Board of Directors. The authorized number of shares, the exercise price of outstanding options and the number of shares under option are subject to appropriate adjustment for stock dividends, stock splits, reverse stock splits, recapitalizations and similar transactions. The 1992 Plan is administered by the Compensation Committee of the Board of Directors who select the optionees and determine the terms and provisions of each option grant within the parameters set forth in the 1992 Plan.

The Board of Directors of the Company also adopted, and the shareholders have approved the Rent-Way, Inc. 1995 Stock Option Plan (the "1995 Plan") which authorizes the issuance of up to 2,000,000 shares of common stock pursuant to stock options granted to officers, directors and key employees of the Company. The 1995 Plan is administered by the Compensation Committee of the Board of Directors and contains terms and provisions substantially identical to those contained in the 1992 Plan.

On November 8, 1995, Alreco approved a stock incentive plan (the "Alreco Plan") under which 450,000 common shares were reserved. Under the Alreco Plan, Alreco was entitled to grant its employees incentive stock options or nonqualified stock options to purchase a specified number of shares of common stock at a price not less than fair market value on the date of grant and for a term not to exceed 10 years. In addition to the stock options, Alreco was entitled to grant stock appreciation rights ("SAR"), restricted stock awards and options to directors. SARs and options to directors were required to be granted at a minimum of fair market value at the date of grant and restricted stock awards at a price to be determined by the Alreco Board of Directors' compensation committee. Directors who were not involved in day-to-day management of Alreco were initially entitled to a grant of 5,000 shares and on each of their next five anniversaries, an automatic 1,000 share grant. On January 23, 1996, Alreco granted 105,000 shares of restricted stock to two key employees, which vested at the earlier of a change in control or at the end of seven years. As a result of the merger with RTO, these shares automatically vested on February 26, 1998. Compensation expense of \$988 and \$194 was recorded related to Alreco Plan for the years ended September 30, 1999 and 1998.

RTO adopted the 1996 Employee Stock Option Plan (the "RTO Plan") to attract and retain employees. Under the RTO Plan, RTO was entitled to grant options to purchase a total of not more than 1,027,973 shares of common stock, subject to anti-dilution and other adjustment provisions provided, however, that the maximum number of shares subject to all options granted to an individual under the Plan would not exceed 50% of the shares of common stock authorized for issuance. No options could be granted under the RTO Plan after the tenth anniversary of the RTO Plan. The options vest over a four-year period and expire on the tenth anniversary following the date of grant. RTO also adopted the 1996 Stock Option Plan for Non-Employee Directors (the "Director's Plan") that provided for the granting to non-employee directors of stock options to purchase up to 448,975 shares of RTO's common stock.

Pursuant to the terms of the merger agreement between Rent-Way and Home Choice, each Home Choice stock option which was outstanding and unexercised at the date of the merger was converted into an option to purchase Rent-Way's common stock. The number of shares subject to the Home Choice options was equal to the product of the number of shares of Home Choice common stock subject to Home Choice options and 0.588, the exchange ratio.

The following is a summary of activity of the Company's stock options during the years ended September 30, 1999, 1998 and 1997 and has been restated to include the activity of Home Choice's stock options based on an exchange ratio of 0.588:

Stock Options	Shares	Weighted Average Price Per Share
September 30, 1996...	1,322,113	\$ 10.51
Granted.....	1,149,522	\$ 15.54
Exercised.....	(306,278)	\$ 6.25
Forfeited.....	<u>(172,568)</u>	\$ 15.30
September 30, 1997...	1,992,794	\$ 13.65
Granted.....	1,070,831	\$ 23.48
Exercised.....	(299,417)	\$ 10.27
Forfeited.....	<u>(441,702)</u>	\$ 19.92
September 30, 1998...	2,320,506	\$ 17.42
Granted.....	1,364,263	\$ 25.90
Exercised.....	(403,610)	\$ 14.07
Forfeited.....	<u>(125,950)</u>	\$ 25.29
September 30, 1999	<u>3,155,209</u>	\$ 21.31

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

**13. STOCK OPTIONS, Continued:**

At September 30, 1999, stock options representing 1,432,515 shares are exercisable at prices ranging from \$5.83 to \$33.63 per share.

The Company accounts for stock based compensation issued to its employees and directors in accordance with APB No. 25 and has elected to adopt the "disclosure only" provisions of SFAS No. 123.

For SFAS No. 123 purposes, the fair value of each option granted under the 1992 Plan, the 1995 Plan, and the 1999 Plan is estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for options granted in fiscal 1999 and 1998: expected volatility of 45.43%, risk-free interest rates between 6.07% and 4.21%, and an expected life of five years.

If the Company had elected to recognize the compensation cost of its stock option plans based on the fair value of the awards under those plans in accordance with SFAS No. 123, net income (loss) and earnings (loss) per common share would have been reduced to the pro-forma amounts below:

	September 30,	
	1999	1998
Net income (loss) before extraordinary item:		
As reported .....	\$ 15.102	\$ (1,838)
Pro-forma .....	9,274	(4,243)
Net income (loss):		
As reported .....	\$ 14,583	\$ (1,838)
Pro-forma .....	8,755	(4,243)
Diluted earnings (loss) per common share:		
Income (loss) before extraordinary item		
As reported .....	<u>\$ 0.68</u>	<u>\$ (0.09)</u>
Pro-forma .....	<u>\$ 0.47</u>	<u>\$ (0.21)</u>
Net income (loss)		
As reported .....	<u>\$ 0.66</u>	<u>\$ (0.09)</u>
Pro-forma .....	<u>\$ 0.41</u>	<u>\$ (0.21)</u>

**14. STOCK PURCHASE WARRANTS:**

During October, November and December 1992, Rent-Way issued warrants to purchase up to 112,500 shares of common stock at \$4.67 per share. The warrants are exercisable at any time for a period of five years from their respective issue dates and are subject to anti-dilution provisions providing for appropriate adjustment in the event of any reclassification, stock dividend, stock split, or similar transaction, and stock issuances below the warrant exercise price. The agreements will expire five years from the respective dates on which the warrants were issued, subject to earlier termination in certain circumstances.

Upon the closing of the Company's initial public offering in August 1993 the underwriters received warrants to purchase 105,000 shares of common stock at a price of \$6.77 per share exercisable for a period of four years commencing one year from the date of the offering.

In July 1995, in connection with Rent-Way's acquisition of McKenzie Leasing Corporation and the issuance of its Convertible Subordinated Debentures, Rent-Way issued warrants to purchase 105,000 shares of common stock at \$9.94 per share to the holders thereof. The warrants are exercisable at any time for a period of seven years from their issue dates and are subject to anti-dilution provisions providing for appropriate adjustment in the event of any reclassification, stock dividend, stock split, or similar transactions, and stock issuances below the warrant exercise price.

In September 1995, Rent-Way issued warrants to purchase 37,500 shares of common stock at \$10.00 per share. The warrants are exercisable at any time for a period of five years from their issue dates and are subject to anti-dilution provisions providing for appropriate adjustment in the event of any reclassification, stock dividend, stock split, or similar transactions, and stock issuances below the warrant exercise price.

**RENT-WAY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(all dollars in thousands, except per share data)

**14. STOCK PURCHASE WARRANTS, Continued:**

At September 30, 1999, the following warrants were outstanding:

<u>Warrant Date</u>	<u>Number of shares</u>	<u>Exercise Price</u>	<u>Expiration Date</u>	<u>Shares Exercised</u>	<u>Shares Remaining</u>
October 1992	37,500	\$ 4.67	October 1997	37,500	—
November 1992	37,500	\$ 4.67	November 1997	37,500	—
December 1992	37,500	\$ 4.67	December 1997	37,500	—
August 1993	105,000	\$ 6.76	August 1998	105,000	—
July 1995	105,000	\$ 9.94	July 2002	—	105,000
September 1995	37,500	\$ 10.00	September 2000	37,500	—

**15. EMPLOYEE BENEFIT PLANS:**

Effective January 1, 1994, Rent-Way established the Rent-Way, Inc. 401(k) Retirement Savings Plan (the "RentWay Plan"). Participation in the Plan is available to all Company employees who meet the necessary service criteria as defined in the Plan Agreement. Company contributions to the Plan are based on a percentage of the employees' contributions, as determined by the Board of Directors, and amounted to \$351, \$383 and \$272 (in the form of the Company's common stock) for the years ended September 30, 1999, 1998 and 1997, respectively.

At September 30, 1999, the Company had three other active 401(k) retirement savings plans: the America's Sales & Leasing 401(k) Plan (the "America's Plan"), the Rent-A-Vision, Inc. 401(k) Plan (the "RentaVision Plan"), and the Home Choice 401(k) and Profit Sharing Plan (the "Home Choice Plan"). The Company incurred \$6 of expense related to the America's Plan during fiscal 1999. No expenses were incurred related to the RentaVision Plan. The Company contributed \$460, \$515 and \$338 to the Home Choice Plan for the years ended September 30, 1999 and 1998, and the twelve months ended December 31, 1997, respectively. Each plan is available to all Company employees who meet the necessary service criteria as defined in the plan agreements. Company contributions to the plans are based on a percentage of the employees' contributions. The Company expects to merge these plans with the RentWay Plan. The Home Choice Plan will be merged in January 2000 and the America's Plan and RentaVision Plan will be merged in July 2000.

The Company also has a frozen 401(k) retirement savings plan: the Amigo TV Rentals, Inc. 401(K) Plan. The Company is working to dissolve this plan. There were no expenses incurred for this plan during fiscal 1999 and 1998.

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

16. EARNINGS (LOSS) PER SHARE:

Basic earnings (loss) per common share is computed using earnings (loss) available to common shareholders divided by weighted average number of common shares outstanding. Diluted earnings (loss) per common share is computed using earnings (loss) available to common shareholders adjusted for anticipated interest savings, net of related taxes, on conversion of the Company's convertible subordinated debentures and the weighted average number of shares outstanding is adjusted for the potential impact of options, warrants, and the convertible subordinated debentures where the effects are dilutive. The weighted average shares outstanding prior to December 10, 1998 include the historical weighted average shares of Home Choice, adjusted for the exchange ratio of 0.588 (see Note 4).

The following table discloses the reconciliation of numerators and denominators of the basic and diluted earnings (loss) per share computation:

COMPUTATION OF EARNINGS (LOSS) PER SHARE	September 30.		
	1999	1998	1997
<b>BASIC</b>			
Net income (loss) .....	\$ 14,583	\$ (1,838)	\$ 1,297
Preferred stock gain on redemption .....	—	—	280
Earnings (loss) applicable to common shares for basic earnings per share .....	<u>\$ 14,583</u>	<u>\$ (1,838)</u>	<u>\$ 1,577</u>
Weighted average common shares outstanding .....	<u>21,341</u>	<u>20,283</u>	<u>16,653</u>
Earnings (loss) per common share:			
Income (loss) before extraordinary item .....	<u>\$ 0.71</u>	<u>\$ (0.09)</u>	<u>\$ 0.11</u>
Earnings (loss) applicable to common shares .....	<u>\$ 0.68</u>	<u>\$ (0.09)</u>	<u>\$ 0.09</u>
<b>DILUTED</b>			
Earnings (loss) applicable to common shares for basic earnings per share .....	\$ 14,583	\$ (1,838)	\$ 1,577
Interest on 7% convertible debentures (net of tax) (1) .....	840	—	—
Earnings (loss) applicable to common shares for diluted earnings per share .....	<u>\$ 15,423</u>	<u>\$ (1,838)</u>	<u>\$ 1,577</u>
Weighted average common shares used in calculating basic earnings per share .....	21,341	20,283	16,653
Add-incremental shares representing:			
Shares issuable upon exercise of stock options, stock warrants and escrowed shares (1) .....	508	—	—
Shares issued on conversion of 7% convertible debentures (1) .....	<u>1,496</u>	<u>—</u>	<u>—</u>
Weighted average number of shares used in calculation of diluted earnings (loss) per share .....	<u>23,345</u>	<u>20,283</u>	<u>16,653</u>
Earnings (loss) per common share:			
Income (loss) before extraordinary item .....	<u>\$ 0.68</u>	<u>\$ (0.09)</u>	<u>\$ 0.11</u>
Earnings (loss) applicable to common shares .....	<u>\$ 0.66</u>	<u>\$ (0.09)</u>	<u>\$ 0.09</u>

(1) Including the effects of these items for the years ended September 30, 1997 and 1998 would be anti-dilutive. Therefore, they are excluded from the calculation of diluted earnings (loss) per share for those periods.

RENT-WAY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(all dollars in thousands, except per share data)

17. SELECTED QUARTERLY FINANCIAL DATA (unaudited):

Quarter Ended (9)	September 30 (1)	June 30	March 31	December 31 (2)(3)
<b>1999:</b>				
Total revenues	\$ 122,690	\$ 121,951	\$ 125,750	\$ 123,959
Gross profit (loss)	19,784	17,666	16,353	(7,088)
Income (loss) before extraordinary item	9,395	8,123	7,115	(9,531)
Net income (loss)	9,395	8,123	7,115	(10,050)
Earnings (loss) applicable to common shares	9,395	8,123	7,115	(10,050)
Earnings (loss) per common share				
Basic				
Income (loss) before extraordinary item (8)	\$ 0.43	\$ 0.38	\$ 0.34	\$ (0.45)
Net income (loss) (8)	0.43	0.38	0.34	(0.48)
Diluted				
Income (loss) before extraordinary item (8)	\$ 0.41	\$ 0.36	\$ 0.32	\$ (0.45)
Net income (loss) (8)	0.41	0.36	0.32	(0.48)
Weighted average shares outstanding				
Basic	21,771	21,335	21,125	21,088
Diluted	23,678	23,378	23,142	21,088
Quarter Ended (9)	September 30 (4)(5)(6)	June 30 (4)(5)	March 31 (4)(7)	December 31
<b>1998:</b>				
Total revenues	\$ 117,917	\$ 118,546	\$ 111,660	\$ 87,908
Gross profit (loss)	11,033	7,394	(1,501)	(2,397)
Income (loss) before extraordinary item	4,577	1,675	(4,982)	(3,107)
Net income (loss)	4,577	1,675	(4,982)	(3,107)
Earnings (loss) applicable to common shares	4,577	1,675	(4,982)	(3,107)
Earnings (loss) per common share				
Basic				
Income (loss) before extraordinary item (8)	\$ 0.22	\$ 0.08	\$ (0.24)	\$ (0.17)
Net income (loss) (8)	0.22	0.08	(0.24)	(0.17)
Diluted				
Income (loss) before extraordinary item (8)	\$ 0.21	\$ 0.08	\$ (0.24)	\$ (0.17)
Net income (loss) (8)	0.21	0.08	(0.24)	(0.17)
Weighted average shares outstanding				
Basic	20,734	20,681	20,701	18,507
Diluted	22,899	22,945	20,701	18,507

- (1) Includes the results of operations of America's Rent-To-Own Center since June 30, 1999 and RentaVision since September 23, 1999. (see Note 4).
- (2) In conjunction with the Merger, the Company incurred \$16,800 in business combination costs and \$1,100 in inventory write-offs. (see Note 4).
- (3) As a result of the refinancing of its senior credit facility in December 1998, the Company incurred an extraordinary charge of \$519, net of tax benefit. (see Notes 1 and 7).
- (4) Includes the results of operations of Ace Rentals since January 1, 1998, Champion since February 5, 1998, and 3 stores acquired by Home Choice. (see Note 4).
- (5) Includes the results of operations of 7 stores acquired by Home Choice. (see Note 4).
- (6) Includes the results of operations of Fast Rentals since July 21, 1998, Cari since September 10, 1998, and Northwest Rent-to-Own. (see Note 4).
- (7) Includes \$11,210 in business combination charges related to Home Choice's predecessor's merger with Alrenco, which occurred in February 1998.
- (8) The sum of the 1999 and 1998 quarterly per share amounts does not equal annual per share amounts due to the effect of rounding.
- (9) All periods have been restated to reflect the merger with Home Choice (see Note 4).

**ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

There has been no change of accountants or reporting disagreements on any matter of accounting principle, practice, financial statement disclosure or auditing scope or procedure within the Company's two most recent fiscal years or the current interim period.

RENT-WAY, INC.

PART III

**ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information in response to this item is incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of shareholders to be held on March 8, 2000, which will be filed with the Securities and Exchange Commission within 120 days after September 30, 1999.

**ITEM 11 EXECUTIVE COMPENSATION**

Information in response to this item is incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of shareholders to be held on March 8, 2000, which will be filed with the Securities and Exchange Commission within 120 days after September 30, 1999.

**ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Information in response to this item is incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of shareholders to be held on March 8, 2000, which will be filed with the Securities and Exchange Commission within 120 days after September 30, 1999.

**ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Information in response to this item is incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of shareholders to be held on March 8, 2000, which will be filed with the Securities and Exchange Commission within 120 days after September 30, 1999.

**ITEM 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

(a)(1.) Financial Statements.

See Index to Financial Statements appearing at Item 8 of this Report.

(a)(2.) Financial Statement Schedules

Financial Statement schedules have been omitted because they are inapplicable or the information is included in the Company's financial statements and notes thereto.

(a)(3.) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
2.1(1)	Asset Purchase Agreement among the Company, AV Rentals/Warren, Inc., AV Rentals/Garystown, Inc., Best Rentals Northside, Inc. and C. Dennis Goldman, dated February 24, 1995.
2.2(4)	Agreement and Plan of Merger among the Company, McKenzie Leasing Corporation, Steve A. McKenzie, Brenda G. McKenzie and others, dated June 9, 1995.
2.3(7)	Stock Purchase Agreement by and among the Company, Diamond Leasing Corporation, Kenneth H. Moye and Lee Brady, dated July 20, 1996.
2.4(9)	Stock Purchase Agreement by and among the Company, Bill Coleman TV, Inc. and David Coleman, dated January 2, 1997.
2.5(6)	Stock Purchase Agreement by and among the Company, Perry Electronics, Inc., Robert L. Thomas, Norma J. Thomas, Randall D. Snyder and Niki L. Snyder, dated January 24, 1997.
2.6(6)	Closing Letter Agreement dated February 6, 1997 amending Stock Purchase Agreement by and among the Company, Perry Electronics, Inc., Robert L. Thomas, Norma J. Thomas, Randall D. Snyder and Niki L. Snyder.
2.7(10)	Asset Purchase Agreement by and among the Company, South Carolina Rentals, Inc., Paradise Valley Holdings, Inc., L & B Rents, Inc. and James S. Archer, dated November 21, 1997.
2.8(11)	Stock Purchase Agreement by and among the Company, Champion Rentals, Inc., Bill C. Ogle, Sr. and others, dated as of January 30, 1998.
2.9(12)	Agreement and Plan of Merger dated September 1, 1998 between the Company and Home Choice Holdings, Inc.
2.10(14)	Stock Purchase Agreement between the Company, Rent-a-Vision, Inc. and Robert Natoli dated September 15, 1999.
3.1(13)	Articles of Incorporation of the Company, as amended.
3.2(2)	By-Laws of the Company, as amended.
4.1(1)	Form of Stock Option Agreement between the Company and each of the shareholders of McKenzie Leasing Corporation, dated July 21, 1995.
4.2(1)	Registration Rights Agreement among the Company, Massachusetts Mutual Life Insurance Co. and affiliates thereof ("MassMutual"), dated July 15, 1995.
4.3(9)	Shareholder's Agreement between the Company and Lee Brady, dated July 20, 1996.
4.4(9)	Stock Option Agreement between the Company and David Coleman, dated January 2, 1997.
10.1(2)	Company's Stock Option Plan of 1992.
10.2(1)	Company's 1995 Stock Option Plan.
10.3(2)	Form of Non-Plan Stock Option Agreement.
10.4(15)	Company's 1999 Stock Option Plan.
10.4*	Employment Agreement between William E. Morgenstern and the Company, dated October 1, 1998.
10.5*	Employment Agreement between Jeffrey A. Conway and the Company, dated October 1, 1998.
10.6*	Engagement Agreement between Gerald A. Ryan and the Company, dated October 1, 1999.
10.7(1)	Consulting Agreement between the Company and Marc Joseffer, dated May 18, 1994.
10.8(1)	Non-Competition Agreement between Marc Joseffer and the Company, dated May 18, 1994.
10.9(1)	Consulting Agreement between the Company and McKenzie Development Corporation, dated July 21, 1995.
10.10(1)	Non-Competition Agreement between the Company and Steve A. McKenzie, dated July 21, 1995.
10.11(1)	Non-Competition Agreement between the Company and Brenda G. McKenzie, dated July 21, 1995.
10.12(4)	Subordinated Note Agreement among the Company and MassMutual, dated July 15, 1995.
10.13(1)	Form of MassMutual Subordinated Note, dated July 15, 1995.
10.14(1)	Form of MassMutual Warrant, dated July 15, 1995.
10.15(12)	Non competition Agreement between the Company and George D. Johnson, Jr.
10.16*	Credit Agreement by and among Rent-Way, Inc., Rent-a-Vision, Inc., and Rent-Way of TTIG, L.P. and the lenders party thereto and National City Bank of Pennsylvania, Bank of America, N.A. and Bank of Montreal and Harris Trust and Savings Bank, as agents dated September 23, 1999, as amended by Amendment No. 1 to Credit Agreement dated November 17, 1999.
10.17(8)	Form of the Company's 7% Convertible Subordinated Debentures due 2007 (the "Debentures").
10.18(8)	Indenture, dated February 4, 1997, between the Company and Manufacturers and Traders Trust Company, as Trustee, in respect of the Debentures.
10.19(13)	Non-Compete Agreement between the Company, South Carolina Rentals, Inc. Paradise Valley Holdings, Inc., L & B Rents, Inc. and James S. Archer, dated January 7, 1998.
10.20(13)	Non-Compete Agreement between Bill C. Ogle, Sr., Gary E. Jackson, J. Lee Ogle, Bill C. Ogle, Jr., Cindy Harper, Teresa Ogle and the Company, dated February 5, 1998.
10.21(13)	Consulting Agreement between Paul N. Upchurch and the Company, dated February 5, 1998.
21*	Subsidiaries of the Company
23*	Consent of PricewaterhouseCoopers LLP.
27*	Financial Data Schedule.

\* Filed herewith

(1) Previously filed, as of January 5, 1996, pursuant to the Company's Registration Statement on Form SB-2 (No. 333-116).

(2) Previously filed, as of December 8, 1992, pursuant to the Company's Registration Statement on Form S-18 (No. 33-55562-NY).

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- (4) Previously filed, as of August 15, 1995, as an exhibit to the Company's Current Report on Form 8-K.
- (5) Previously filed, as of December 28, 1995, as an exhibit to the Company's Current Report on Form 10-KSB.
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- (8) Previously filed, as of May 9, 1997, pursuant to the Company's Registration Statement on Form S-3 (No. 333-26835).
- (9) Previously filed, as of November 6, 1997, as an exhibit to the Company's Annual Report on Form 10-K.
- (10) Previously filed, as of January 20, 1998, as an exhibit to the Company's Current Report on Form 8-K.
- (11) Previously filed, as of February 19, 1998, as an exhibit to the Company's Current Report on Form 8-K.
- (12) Previously filed, as of November 6, 1998, pursuant to the Company's Registration Statement on Form S-4 (No. 333-66955).
- (13) Previously filed, as of December 29, 1998, as an exhibit to the Company's Annual Report on Form 10-K.
- (14) Previously filed, as of October 12, 1999, as an exhibit to the Company's Current Report on Form 8-K.
- (15) Previously filed, as of February 12, 1999, as Exhibit A to the Company's Proxy Statement on Schedule 14A.

(b) Reports on Form 8-K:

- (1) On July 27, 1999, the Company filed a Current Report on Form 8-K which reported the issuance of a press release on June 30, 1999 announcing the acquisition of America's Rent-To-Own Center, Inc.
- (2) On August 16, 1999, the Company filed a Current Report on Form 8-K announcing the election of Jacqueline E. Woods to the Board of Directors.
- (3) On August 31, 1999, the Company filed a Current Report on Form 8-K announcing the resignation of Gerald A. Ryan as Chairman of the Board of the Company.
- (4) On September 24, 1999, the Company filed a Current Report on Form 8-K which reported the issuance of a press release on September 15, 1999 announcing the signing of a definitive agreement to acquire the stock of RentaVision, Inc.
- (5) On October 12, 1999, the Company filed a Current Report on Form 8-K disclosing the completion of the RentaVision acquisition and attaching the exhibits required under Item 7.
- (6) On October 21, 1999, the Company filed a Current Report on Form 8-K in response to numerous inquiries regarding the decline in the price of its common stock.
- (7) On December 3, 1999, the Company filed a Current Report on Form 8-K/A amending the Current Report on Form 8-K filed October 12, 1999 to file the financial statements and pro forma financial information required under Item 7.

RENT-WAY, INC.

SIGNATURES

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

Registrant: RENT-WAY, INC.

By: /s/ WILLIAM E. MORGENSTERN

Chairman of the Board, President and Chief Executive Officer  
(Principal Executive Officer)

December 22, 1999

Date

By: /s/ JEFFREY A. CONWAY

Senior Vice President and Chief  
Financial Officer  
(Principal Financial Officer)

December 22, 1999

Date

By: /s/ MATTHEW J. MARINI

Controller and Chief Accounting Officer  
(Principal Accounting Officer)

December 22, 1999

Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ GERALD A. RYAN</u> Gerald A. Ryan	Director	December 22, 1999
<u>/s/ WILLIAM E. MORGENSTERN</u> William E. Morgenstern	Director	December 22, 1999
<u>/s/ VINCENT CARRINO</u> Vincent Carrino	Director	December 22, 1999
<u>/s/ ROBERT FAGENSON</u> Robert Fagenson	Director	December 22, 1999
<u>/s/ MARC W. JOSEFFER</u> Marc W. Joseffer	Director	December 22, 1999
<u>/s/ WILLIAM LERNER</u> William Lerner	Director	December 22, 1999
<u>/s/ PAUL N. UPCHURCH</u> Paul N. Upchurch	Director	December 22, 1999
<u>/s/ JACQUELINE E. WOODS</u> Jacqueline E. Woods	Director	December 22, 1999

## EXHIBIT INDEX

Exhibit No.	Description
2.1(1)	Asset Purchase Agreement among the Company, AV Rentals/Warren, Inc., AV Rentals/Garystown, Inc., Best Rentals Northside, Inc. and C. Dennis Goldman, dated February 24, 1995.
2.2(4)	Agreement and Plan of Merger among the Company, McKenzie Leasing Corporation, Steve A. McKenzie, Brenda G. McKenzie and others, dated June 9, 1995.
2.3(7)	Stock Purchase Agreement by and among the Company, Diamond Leasing Corporation, Kenneth H. Moye and Lee Brady, dated July 20, 1996.
2.4(9)	Stock Purchase Agreement by and among the Company, Bill Coleman TV, Inc. and David Coleman, dated January 2, 1997.
2.5(6)	Stock Purchase Agreement by and among the Company, Perry Electronics, Inc., Robert L. Thomas, Norma J. Thomas, Randall D. Snyder and Niki L. Snyder, dated January 24, 1997.
2.6(6)	Closing Letter Agreement dated February 6, 1997 amending Stock Purchase Agreement by and among the Company, Perry Electronics, Inc., Robert L. Thomas, Norma J. Thomas, Randall D. Snyder and Niki L. Snyder.
2.7(10)	Asset Purchase Agreement by and among the Company, South Carolina Rentals, Inc., Paradise Valley Holdings, Inc., L & B Rents, Inc. and James S. Archer, dated November 21, 1997.
2.8(11)	Stock Purchase Agreement by and among the Company, Champion Rentals, Inc., Bill C. Ogle, Sr. and others, dated as of January 30, 1998.
2.9(12)	Agreement and Plan of Merger dated September 1, 1998 between the Company and Home Choice Holdings, Inc.
2.10(14)	Stock Purchase Agreement between the Company, RentAVision, Inc. and Robert Natoli dated September 15, 1999.
3.1(13)	Articles of Incorporation of the Company, as amended.
3.2(2)	By-Laws of the Company, as amended.
4.1(1)	Form of Stock Option Agreement between the Company and each of the shareholders of McKenzie Leasing Corporation, dated July 21, 1995.
4.2(1)	Registration Rights Agreement among the Company, Massachusetts Mutual Life Insurance Co. and affiliates thereof ("MassMutual"), dated July 15, 1995.
4.3(9)	Shareholder's Agreement between the Company and Lee Brady, dated July 20, 1996.
4.4(9)	Stock Option Agreement between the Company and David Coleman, dated January 2, 1997.
10.1(2)	Company's Stock Option Plan of 1992.
10.2(1)	Company's 1995 Stock Option Plan.
10.3(2)	Form of Non-Plan Stock Option Agreement.
10.4(15)	Company's 1999 Stock Option Plan.
10.4*	Employment Agreement between William E. Morgenstern and the Company, dated October 1, 1998.
10.5*	Employment Agreement between Jeffrey A. Conway and the Company, dated October 1, 1998.
10.6*	Engagement Agreement between Gerald A. Ryan and the Company, dated October 1, 1999.
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COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
P. O. BOX 3265, HARRISBURG PA 17105-3265

IN REPLY PLEASE  
REFER TO OUR FILE  
Secretary  
717-772-7777

March 31, 2000

A-310804 F5000

Kyle L. Dickson, Esquire  
Maxwell, Baker and McFatridge, PC  
2525 South Shore Boulevard  
Suite 410  
League City, Texas 77573

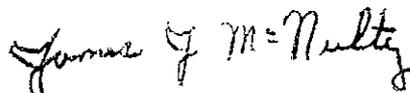
Dear Mr. Dickson:

Receipt is acknowledged of the Application of DPI-  
Teleconnect, LLC., which has been captioned and docketed to the  
above number.

You are required to file a copy of the application upon the Office of  
Consumer Advocate, the Office of Small Business Advocate, and the Office of  
Attorney General, and file proof of such service with this Commission.

This matter will receive the attention of the Commission and  
you will be advised of any further necessary procedure.

Sincerely,



James J. McNulty  
Secretary

JJM:ddt

**DOCKETED**  
MAR 31 2000

**DOCUMENT  
FOLDER**

DATE: March 31, 2000

SUBJECT: A-310804 F5000

TO: Bureau of Fixed Utility Services

FROM: James J. McNulty, Secretary *dt*

**APPLICATION OF DPI-TELECONNECT, LLC**

---

We attach hereto a copy of the Application of DPI-Teleconnect, LLC., which has been captioned and docketed to the above number.

The Applicant has been instructed to file a copy of the application upon the Office of Consumer Advocate, the Office of Small Business Advocate, and the Office of Attorney General, and file proof of such service with this Commission.

May we have a report prepared by your Bureau for public meeting.

Attachment

cc: Law Bureau

ddt

**DOCKETED**  
MAR 31 2000

**DOCUMENT  
FOLDER**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

RECEIPT

The addressee named here has paid the PA P.U.C. for the following bill:

MAXWELL BAKER MCFATRIDGE PC  
ATTN KYLE L DICKSON  
2525 S SHORE BLVD. STE 410  
LEAGUE CITY, TX 77573

DATE 4/ 4/00  
RECEIPT # 196918

Application fees for DPI TELECONNECT LLC

Docket Number A-310804F5000..... \$350.00

REVENUE ACCOUNT: 001780-017601-102

CHECK NUMBER: 13168  
CHECK AMOUNT: \$350.00

C. Joseph Meisinger  
(for Department of Revenue)

DOCKETED  
APR 04 2000

DOCUMENT  
FOLDER

MAXWELL, BAKER & McFATRIDGE, P.C.

ATTORNEYS AT LAW  
2525 SOUTH SHORE BLVD., SUITE 410  
LEAGUE CITY, TEXAS 77573

KYLE L. DICKSON  
Shareholder  
kdickson@maxwellbaker.com

TELEPHONE (281) 521-2000  
FACSIMILE (281) 521-2010

305287  
April 4, 2000

00 APR -7 AM 8:19  
RECEIVED  
SECRETARY'S BUREAU  
GALVESTON OFFICE (409) 765-7446  
FACSIMILE (409) 762-8519

Pennsylvania Public Utility Commission  
Room B20, North Office Bldg.  
North & Commonwealth Streets  
P. O. Box 3265  
Harrisburg, Pennsylvania 17105-3265

**DOCKETED**

APR 10 2000

DOCUMENT  
FOLDER

Re: *A-310804 F5000; Application of DPI-Teleconnect, L.L.C., for Approval of the Sale of a Majority Interest*

Dear Sir or Madam:

Please be advised that a copy of the above-mentioned Application has been served upon the parties listed below.

If you have any questions, please contact me at (281) 521-2000.

Respectfully submitted,



Kyle L. Dickson

cc: Irwin A. Popowsky  
Consumer Advocate  
1425 Strawberry Square  
Harrisburg, PA 17120

Pennsylvania Public Utility Commission  
Page 2

cc: Bernard A. Ryan, Jr. 305288  
Small Business Advocate  
Commerce Building, Suite 1102  
300 North Second Street  
Harrisburg, PA 17101

00 APR -7 AM 8:19  
RECEIVED,  
SECRETARY'S BUREAU

cc: Office of the Attorney General  
Bureau of Consumer Protection  
Strawberry Square, 14th Floor  
Harrisburg, PA 17120