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New Rec: Rent-Way (RWY-$28.50) August 23, 2000

Position: Sell Target: $16 Timing: 2 (1=aggressive; 5=cautious)

$000	Q300	Q400e	Q101e	Q201e	FY00e	FY01e
Revenue	152,089	165,095	172,578	187,061	606,982	759,000
EPS$	0.47	0.45	0.50	0.49	1.82	2.00
PE	n/a	n/a	n/a	n/a	16.5	15.0
y/y gro	29%	9%	14%	7%	44%	10%
EV/sales	n/a	n/a	n/a	n/a	1.7	1.4
consens	n/a	0.47	0.51	0.58	1.84	2.57

Shs Out:24.9M Mkt Cap: 709M FYE: Sept.

Summary: Rent-Way (RWY) is the nation’s second largest rent-to-own retail chain, behind Rent-a-Center (RCII). RWY’s share price has increased by about 60% this year, and by over 100% from its 52 week low. It is trading at about 16 times current year consensus earnings. RWY shares’ recent performance appears to be due to strong past and expected earnings growth and hopes for an acceleration of same store sales due to new initiatives in selling additional products through the stores.

In our view, RWY’s valuation is not justified by actual performance, nor by its prospects. First, RWY has a significant quality of earnings problem. RWY’s cost of goods sold is mainly depreciation of its rental merchandise inventory. The

company depreciates the inventory only when it is out on rent, and not when it is in the store or in the warehouse. This policy would not be so bad if depreciation and inventory purchases were to match, but they do not. RWY's inventory purchases outpaced depreciation by approximately $33M in F1998, by $12M in F1999, and by an extraordinary $84M in the first nine months of F2000. This is an indication that depreciation rates are not high enough, or that there is stale or obsolete inventory that is not being charged off. RWY has no reserve for charge-offs.

Cash flow from operations, which includes inventory purchases, has been consistently negative. Because of weak accounting, we think that cash flow is the true earnings measure in this business, and, from our point of view, RWY does not make money. The balance sheet shows the problem. Stockholder equity is increasingly tied up in inventory of questionable value, a result of over reporting profits and requiring fresh inventory to generate sales. In the last year, stockholder equity has increased by $80M to $342M, but inventory has increased more, by $100 M to $287 M.

RWY's operating cash flow for the nine months ended June 30 was a (-$28M), and free cash flow was (-$54M). By comparison, competitor RCII generated $61M of positive free cash during the last six months. On an Enterprise Value to sales basis, RWY is also at a significant premium to RCII. RWY's EV to sales ratio is 1.7 versus 1.0 for RCII.

There are many other problems, which we discuss at length below. Among them are other quality of earnings issues. Growth has been almost exclusively through acquisition, not through internal growth, and reported earnings have been boosted by acquisition accounting. There appears to have been an excessive amount of goodwill recorded in accounting for past acquisitions, perhaps in an attempt to further slow depreciation and amortization to raise profits. One time charge-offs, reported as one time events, may have been used to boost reported margins, as gross margins from the sale of previously written down merchandise can be very high. We examine these issues in detail, below.

Clearly, then, we think that RWY has not been a profitable business and that a variety of creative accounting measures have been utilized to obscure the lack of profitability. What then of its prospects? Of course, we anticipate a continuation of the past poor accounting practices to show earnings, though the extra benefits of the Rentavision acquisition accounting are winding down, as we discuss below. However, one of the reasons for the enthusiasm surrounding RWY shares is because RWY is supposed to be a platform for growth of new products. In particular, RWY has entered the pre-paid local phone service business, and has signed a deal to rent Gateway computers that has investors especially worked up. However, we question whether either one of these businesses can deliver anything like what investors are expecting.

RWY sells pre-paid local phone service through its recently acquired dPi to people who cannot afford regular service due to bad credit. These customers pay about twice as much for pre-paid service to dPi than is charged by the local phone companies. The market is competitive, margins are low, and customer acquisition

costs are high. DPi revenues were $4.2M in Q300. Expectations for sales of pre-paid phone service to climb to as high as $65M in F2001 seem excessively optimistic.

Even less likely to occur is the hoped for growth in rental PCs. The "street" has high hopes for this business, projecting rental revenue of $90M to $120M in F2001, and 200 PC rentals out on rent per store at maturity, implying potential revenues of about $275M annually. In order to achieve even the low end of F2001 goal, about 80,000 PCs will need to be out on rent on average in F2001. This equates to an average 67 PCs per store rented out at any one time in F2001.

RWY is already in the rent-to-own PC business, using Dell and Compaq PCs. It plans to rent only, and not rent-to-own the Gateway PCs. We think that this strategy will appear to be initially successful, as it comes off a small base, but will not achieve the level of success expected by the "street." First, "street" projections appear to have merely added on Gateway revenue to existing revenue, and have not taken into account the fact that much of the existing rent-to-own PC business will be lost and some other non-PC business will probably also be cannibalized. Second, we think the appeal of renting a very low end PC which cannot be upgraded and which cannot be bought will prove to be very limited, and especially more so as these computers begin to age. We think the appeal of renting without being able to buy will be limited by the "personal" nature of the PC, on whose hard drive much personal information will be stored that consumers will ordinarily want to keep once created. Finally, we think that analysts who are claiming that these low end computers will have high residual value even after 24 months and who claim that their eventual sale will boost profits are far too optimistic.

The Compaq/Dells are being depreciated over 15 months. The Gateways will be depreciated on a straight line basis over 24 months. Importantly, if RWY depreciated the Gateways over 15 months, the future anticipated reported profits would turn into reported losses. Instead, we think that RWY will have high residual risk and the profit from the Gateway deal will be front end loaded.

"Street" expectations appear to be too high, and we expect even reported revenues and profits will be below expectations. When combined with already poor quality of earnings, which we expect to continue and to be of increasing concern as the balance sheet deteriorates, a significant share price decline should ensue. We estimate that reported earnings growth will decline to about 10% and cash flow will remain negative. Given this scenario, and the fact that there is little secular growth in the rent-to-own industry and increasingly sparse acquisition opportunities, we expect RWY's share price to decline to about $16, or about 8 times our projected F01 earnings

Discussion:

1. Rent-Way (RWY) is the second largest operator in the rent-to-own (RTO) industry, behind Rent a Center (RCII). RWY operates approximately 1,100 stores in 41 states. RCII operates approximately 2,100 stores and is also a franchisor of about 360 stores. The other public rent-to-own chains are Aaron Rents (RNT), Rainbow

Rentals (RBOW) and Bestway (BSTW). There are reportedly about 8,000 rent-to-own stores in the U.S.

Rent-Way has grown almost exclusively through acquisition. Of the total 13% revenue growth in F1999, 11% was provided by acquisitions and only 2% by same store sales and new store sales. In Q100, 1999 acquisitions (primarily Rentavision, which was acquired on 9/23/99) represented 118% or revenue growth and in Q200, these acquisitions represented 102% of revenue growth. Store Closings appear to have more than offset same store sales growth and new store openings (not including acquisitions) in Q100 and Q200. In Q300, prior twelve month acquisitions provided 96% of revenue growth.

Rent-Way's largest and most risky acquisition was the December 1998 acquisition of Home Choice Holdings, which was itself a roll up. Home Choice was larger than Rent-Way, with $258M in revenues for the year ended September 1998 versus $177M for Rent-Way. Home Choice also had a net loss of $14.4M for the year ended September 1998.

The combination of the two weak balance sheets resulted in goodwill of $225M, and net rental merchandise of $176M, with equity of $248M, and debt of $180M. Essentially, you could say almost all of the equity was "invested" in goodwill and the debt financed the net rental merchandise. Since the merger, RWY's balance sheet has worsened. As of June 30, 2000, equity has increased to $342M, but debt increased even more to $320M, while goodwill rose to $313M and net rental merchandise rose to $287M.

2. Rent Way's financial statements reveal a number of disturbing trends. These are as follows:

Operating margins appear to have peaked and have been running at between 16% and 17% for the last four quarters. At the same time, debt is increasing due to negative free cash flow and acquisitions. Debt has increased from $168M at 6/98 to $198M at 6/99 and $320M in 6/00. Interest expense as a percentage of revenue has gradually increased from 2.9% in H298 to 4.7% in H100.

Though some bullish analysts believe operating margins can expand in FY01, we think operating margins will decline going forward, as we discuss below.

3. As shown in Table 1, rental merchandise inventory is increasing at a much faster rate than rental revenue. This indicates that RWY is having to invest more money in inventory to generate the same amount of revenue. It also indicates that the depreciation rate may be too slow and the total amount too low. While some of the growing disparity in Q300 is due to purchases of Gateway computers, we think this would explain only a small part of the trend. We estimate the total investment in the Gateway PCs to be about $13 million as of June 2000, based on 12,500 PCs on rent at June 30 and assuming 5,000 additional PC's in inventory.

Table 1 (in 000)

	Q498 9/98	Q199 12/98	Q299 3/99	Q399 6/99	Q499 9/99	Q100 12/99	Q200 3/00	Q300 6/00
Rental revenue	97823	107230	109237	110070	100556	119982	127019	126671
y/y change	n/a	n/a	n/a	n/a	**2.8%**	**11.9%**	**16.3%**	**15.1%**
Rental Merch, net	176022	197043	202427	189728	202145	232133	260300	287103
y/y change	n/a	n/a	n/a	n/a	**14.8%**	**17.8%**	**28.6%**	**51.3%**
R/M purchases	n/a	n/a	n/a	n/a	30,142	61,146	63,785	62,507
R/M depreciation	n/a	n/a	n/a	n/a	-30,142	-31,158	-36,317	-35,704
Dep as % of purchases	n/a	n/a	n/a	n/a	**100%**	**51%**	**57%**	**57%**

Source: RWY 10k and 10q filings. R/M = rental merchandise

Since RWY only depreciates rental merchandise when it is on rent, an increase in inventory in the stores, possibly due to stale and slow moving inventory, does not impact the P&L. Indeed, RWY's cash flow statement paints a far different picture of profitability than its P&L. Operating cash flow for the nine months ended June 30, 1999 was (-$28M), with $187M invested in rental merchandise and only $103M depreciated. Free cash flow was (-$54M). This is a sharp deterioration versus prior year, when operating cash flow was still a (-$2M) and free cash flow (-$17M). While RWY's reported earnings have increased, its cash flow has deteriorated. Paying attention to cash flow is particularly important in RWY's business, as items are only depreciated when out on rent. Despite an increasing investment in inventory, which should stimulate same store sales, same store sales have nevertheless been weak, as discussed below.

This point is critical to understanding whether RWY is actually a profitable enterprise. In our opinion, it is not. A private operator of a similar business, for example, would only want merchandise purchases to exceed depreciation to the extent it was made necessary by sales growth. A private operator would correctly view his true profitability in the business as excess cash flow, and would strive to minimize taxes and inventory purchases.

The issue of how to understand the true profitability of an enterprise that has depreciation of merchandise as its cost of goods has been the subject of many of our past reports. Our clients may remember our work on Movie Gallery and Hollywood Entertainment, and Rent-a-Center, which was also cash flow negative until this year. In all these cases a too slow rate of depreciation improves reported profitability, hides inventory problems, and resulted in negative cash flows. Until these problems are repaired, in our view companies that exhibit these characteristics are not really economically profitable, though they may report profits.

Interestingly, RWY has a $21M deferred tax liability related to rental merchandise at September 30, 1999. This indicates to us that RWY has taken about $56M more in tax depreciation (assuming a 38% tax rate) than book depreciation for financial reporting purposes. We suppose, then, that the tax authorities agree with our point of view that RWY is not really as profitable as the accountants allow it to report to investors.

4. Based on a review of the 1999 10K, Goodwill from 1997 purchase acquisitions is being amortized over 20 years. Goodwill from 1998 and 1999 purchase acquisitions, such as Champion Rentals and Rentavision, is being amortized over 30 years. We

estimate that goodwill and other intangible assets such as customer lists and non-compete agreements are being amortized over an average life of 25 years in F1999 and F2000 ytd versus a 15 year life in F1998. Amortization expense as a percentage of gross goodwill decreased from 1.19% in Q498 to 0.76% in Q499. Goodwill represents almost one-half of RWY's total assets. The lengthening of the goodwill amortization period has clearly benefited RWY's P&L.

5. RWY appears to have been very aggressive in its accounting for recent purchase acquisitions, particularly the large Rentavision acquisition. RWY acquired Rentavision, Inc. on September 23, 1999 for $69M in cash and $5M in stock. Table 2 shows the standalone Rentavision balance sheet and pro-forma adjustments. RWY wrote off 57% of Rentavision's inventory and 98% of its fixed assets. RWY would have us believe, based on the net effect of its adjustments, that the fair value of net assets acquired in this acquisition was negative $11M. Goodwill of $84M was recorded along with net assets of (-$11M) on a net purchase price of $74M.

Perhaps if Rentavision had been losing money it might seem somewhat more plausible that its net assets had no value. But Rentavision reported operating income of $4.5M on revenues of $65M for the year ended December 1998 and operating income of $3M on revenues of $44M for the year ended December 1997. RWY's treatment of this acquisition looks like "creative accounting" from our point of view.

Table 2 (in 000)
Rentavision purchase accounting, 9/23/99

	Pre-acquisition	pro-forma adjust's	pro-forma adjusted
Cash	725	(219)	506
Prepaid expense	107		107
Rental merch, net	28,758	(16,491)	12,267
Deferred income tax	0		0
PP&E, net	6,463	(6,314)	149
Goodwill, net	0	84,312	84,312
Deferred financing	0		0
Prepaid consulting fee	0		0
Other assets	101	1,600	1,701
Total assets	36,154		99,042
Accounts payable	958		958
Other liabilities	2,792		2,792
Income tax payable			0
Debt	21,419	68,773	90,192
Total liabilities	25,169		93,942
Common stock		5,100	5,100
Retained earnings	10,985	(10,985)	0
Total equity	10,985		5,100
Total liab & equity	36,154		99,042

Source: RWY 12/3/99 8-KA filing

6. Table 3 calculates the estimated savings in depreciation expense that RWY obtained from the large write off Rentavision inventory and fixed assets. We estimate that RWY has saved approximately $2.4M in depreciation expense per quarter

beginning in Q100.

Table 3 (in 000)

write off of net rental merch	16,491
est annual deprecation %	58.0%
est annual dep of rental merch saved in $	9,565
est quarterly dep of rental merch saved	2,391
write off of PP&E	6,314
est annual dep %	14.5%
est annual dep saved in $	916
total dep saved	10,480
extra goodwill booked	22,805
amortization period in years	30
extra goodwill amortization	(760)
net est annual depreciation savings	9,720
net est quarterly depreciation savings	2,430

7. In RWY's recent 10Qs, management attributes the improvement in depreciation of rental merchandise as a percentage of revenue (see Table 4), which is boosting reported operating margins, to increases in weekly rental rates, lower purchase cost of rental merchandise, improved realization of potential collectible rent and improved performance in the acquired Home Choice stores. Curiously, management even gave this explanation in FQ300 even though depreciation increased as a percentage of rental revenue y/y from 27.2% to 28.2%. However, the improvement in reported depreciation as a percentage of total revenue was solely due to a large increase in "other revenue", which consists of merchandise sales and various fees.

In Table 4 we estimate that without the benefit of the Rentavision inventory write off, depreciation as a percentage of rental merchandise has actually increased on a year over year basis for the last two quarters, and the trend is deteriorating.

Table 4 (in 000)

	12/98	3/99	6/99	9/99	12/99	3/00	6/00
Rental revenue (1)	107,23C	109,237	110,070	100,556	119,982	127,019	126,671
Dep. of rental merch (1)	31,324	32,140	29,905	30,142	31,158	36,317	35,704
Act dep % (3)	29.2%	29.4%	27.2%	30.0%	26.0%	28.6%	28.2%
y/y change (3)	n/a	n/a	n/a	n/a	-3.2%	-0.8%	1.0%
Dep. savings on w/o (2)	n/a	n/a	n/a	n/a	2,391	2,391	2,391
Adj. dep rental merch(2	n/a	n/a	n/a	n/a	33,549	38,708	38,095
Adj dep % (3)	n/a	n/a	n/a	n/a	28.0%	30.5%	30.1%
Adj. y/y change (3)	n/a	n/a	n/a	n/a	-1.3%	1.1%	2.9%

Notes: (1) Per RWY earnings releases. (2) OWS estimates (see Table 3) (3) Calculated.

The Rentavision inventory write-off should be of little benefit in FY01 as acquisition closed on 9/23/99 and almost all of this inventory should be sold off or liquidated by the end of F2000.

8. Same store sales have been weak, but we think the core business is even less healthy than the same store numbers indicate. Home Choice same store sales were negative for four quarters following the merger and have just crept into positive territory. This poor performance is despite the fact that over 90 stores have been closed since the merger, and many of these appear to have been poorly performing

Home Choice stores. It is also reasonable to expect that at least some of the revenue from these stores was transferred to the remaining stores.

Table 5
Same store sales

	Q299	Q399	Q499	Q100	Q200	Q300 (1)
Rent Way same store rev	6.9%	5.0%	5.5%	5.1%	5.1%	5.1%
Home Choice same store rev	-2.5%	-5.3%	-2.8%	-0.9%	0.6%	1.4%
Combined same store rev	0.4%	-0.8%	0.7%	1.9%	2.7%	3.2%

Source: RWY 10Q's and earnings releases.
(1) Excludes contribution from dPi prepaid local phone service. Combined same store sales were 4.8% including dPi.

9. More troublesome still is the source of the Rent Way same store performance. Table 6 shows the sources of increases and decreases in revenue growth in Q300 versus the prior year.

Table 6 (in 000)

Q399 sales	122,000
Dpi	4,200
Rentavision acq	21,700
America's rent to own acq	2,100
Prime Time acq	900
stores opened in F1999&2000	2,600
revenue increases in core stores	400
Home Choice stores rev decrease	(1,800)
Q300 sales	152,100

Source: RWY Q300 10Q.

RWY claims 5.1% RentWay same store sales in Q300 but its Q300 10Q explains that "revenue increases in core stores accounted for $0.4 million ($400,000) of the increase". This statement is interesting and warrants examination in more detail. The first question is, what is meant by "core stores"? We think the core stores are the original RentWay stores, excluding the Home Choice, Rentavision, America's Rent to Own and Prime Time acquired stores. We estimate core store sales of about $65M in Q300, so clearly the $400,000 increase would not be enough to explain the 5.1% same store sales increase. It would only explain about one-tenth of the increase.

10. We estimate that same store sales of 5.1% on all non-Home Choice stores would be equivalent to approximately $3.2M. With "core stores" increasing only $0.4 M, we think that the "missing" $2.8M came almost entirely from the Rentavision stores. RWY's 1999 10K states that Rentavision 1999 revenues were about $75M. Through June 2000, former Rentavision stores had CY2000 annualized sales of $86M even though 25 Rentavision stores had been closed since the acquisition, according to a recent "street" report . The annualized growth of $11M (quarterly average $2.75M), or 15% y/y, would almost fully explain the $2.8M same store sales increase that came from "non-core" RWY stores. Note that these acquired Rentavision stores are included in the same store base but are not part of the "core store" base that increased by only $400,000 versus prior year.

This begs the question, why have the Rentavision stores been growing at such

a rapid rate, apparently providing nearly all of the RWY's same store sales growth? Interestingly, "other revenue" grew 42% y/y in the three quarters following the Rentavision merger while rental revenue grew only 14%. Other revenue consists of merchandise sales and various fees such as late fees and insurance. Though RWY does not disclose fee revenue separately, according to an Association of Progressive Rental Organizations (APRO) statistical survey of rental organizations (RTO), which included RWY and RCII as survey participants, fees have declined as a percentage of revenue for the average RTO business for three straight years, from 10.5% of revenue in 1997 to 8.7% in 1999. Also, RWY store managers we contacted report that fees have not been increasing as a percentage of revenue.

As a result, we think the large increase in Rentavision "other revenue" comes from merchandise sales. Recall that RWY wrote down the Rentavision rental merchandise from $29M to $12M (see Table 2). As such, Rentavision could afford to cut the significantly price of this merchandise for sale and still make high profit margins. Though RWY does not disclose its margin on regular merchandise sales, a recent "street" report notes that RCII generally makes a 15%-20% gross profit margin on merchandise sales. Since, RWY and RCII have the same depreciation policy, we think RWY's normal gross margin on merchandise sales is similar to RCII.

Because it would likely have to cut prices by at least 15%- 20% to materially stimulate growth, RWY would not be likely to make any money strictly by cutting prices to drive higher sales of rental merchandise in core RWY stores. Therefore, it makes sense that RWY had the "fire sale" in the Rentavision stores, where it had already written down inventory values by 58%. In its CY2000 10Qs management states that one of the reasons for the increased interest expense in 2000 is that the company had purchased rental merchandise at a higher rate in the Rentavision stores. Such increased purchases would be necessary if RWY had sold a lot of the existing Rentavision merchandise at discounted prices. We spoke with three managers of former Rentavision stores, who reported that almost all of the pre-acquisition Rentavision inventory has been sold off at discounted prices.

11. If it is correct that the same store sales growth in the non-Home Choice stores has been generated by the sale of written down and discounted merchandise in the Rentavision stores, then not only have the Home Choice stores averaged negative same store sales in the last four quarters, but there is virtually no same store sales growth in the "core" RWY stores (i.e. non-Home Choice and non-Rentavision stores) either. The $400,000 increase in same store sales growth in the core RentWay stores in FQ300 equates to less than 1% same store sales growth in these stores, by our estimate. Furthermore, even some of this meager growth came from the initiation of Gateway rentals in the quarter. The revenue increase in the core stores for the nine months ended June 30 was $1.2M per the Q300 10Q, so there was no change in the trend in FQ300.

It may have made good business sense for RWY to liquidate former Rentavision inventory if Rentavision's inventory was different and if it wanted to standardize inventory throughout the chain. We are not quarreling with the strategy. Our point is that the 58% inventory write down appears to have enabled Rentavision to sell a lot of merchandise at highly discounted prices and still earn much higher

than average profit margins. Furthermore, this benefit will have largely run its course by the end of FY00.

Interestingly, RWY does not appear to have liquidated inventory to any significant extent at the Home Choice stores. It would appear to make more sense to have liquidated inventory at these stores, since Home Choice lost $14M in the year prior to the acquisition. However, since the Home Choice was a pooling acquisition, RWY was not able to write down the inventory.

12. On April 21, RWY announced an agreement with Gateway Computer to become the exclusive rental supplier of Gateway computers. The RWY program offers Gateway PCs for rent with no purchase option (referred to as "rent-to-rent" as opposed to "rent-to- own"). Previously, RWY had been renting Compaq and Dell computers under traditional rent-to-own arrangements.

The basic deal is a low end Gateway Astro PC for $20 per week. This model has the PC components bundled in one box with a 15" monitor. It contains a 400mhz Celeron processor, 64mb of ram, a 4.3GB hard drive and is non-upgradeable. The deal also includes dial up internet service. Interestingly, Gateway discontinued the Astro machine in early August, 2000. A regular desktop machine with a faster processor costs a few dollars more, and a cheap printer can be added on for an extra $5 per week. RWY reported on its FQ300 conference call that it is averaging $22 per week rental revenue per PC.

A call to a Rent-a-Center store revealed that RCII is offering a similarly configured Dell "WebPC" for $30 per month under a rent-to-own arrangement (though this low end model is not available in every store). We think many rental customers prefer the rent to own arrangement, and RCII understandably also prefers to sell the PC after an initial lease term, so as not be stuck with low end PCs with the risk of a high residual balance sheet item that cannot be realized. Interestingly, RCII reported on its Q200 conference call that Gateway had approached the company before RWY, but RCII didn't view the deal as an attractive opportunity.

13. RWY has stated it plans to have dedicated floor space for the Gateway PCs. One "street" report noted that the larger stores' dedicated floor space will be 15' x 12' with a kiosk in smaller stores. Management guidance on the EPS contribution from the Gateway business is apparently $0.05-$0.08 dilution in Q400 and $0.30 to $0.40 accretion in FY01. The company also believes it can average 200 PCs on rent per store at maturity. We estimate a 20% pre-tax margin on the Gateway business based on an analysis of incremental expenses associated with the Gateway deal. This compares to RWY's 11.5% pre-tax margin on current year ytd revenue.

As shown in Table 7, assuming a 20% pre-tax margin, management's EPS guidance on the Gateway deal for F2001 implies $79M of revenue and nearly 70,000 PC's will be rented on average. Note that this is not the total PCs rented, but the average number of PCs on rent at any one time. This compares to only about 20,000 Dell and Compaqs on rent at RWY after one year since service launch at RWY. Also by comparison, RCII has approximately 80,000 computers on rent accounting for 8% of total revenue, according to a recent "street" report. This works out to an average of

38 PCs on rent per store for Rent-a-Center (RCII).

Table 7: Management EPS guidance on the Gateway deal in FY01 implies:

Average PC's on rent	60,185
Number of weeks in year	52
Ave. rental rate per wk	22
Total revenue	68,851,640
Pre-tax margin @ 20%	13,770,328
Net after tax contribution	8,537,603
Shares out	24,200,000
EPS impact	0.35
ave PC's rented per store	50

Expectations of about 50 PCs on rent per average store in FY01 seems aggressive and expectation of 200 PCs on rent per store at maturity seems unrealistic. We doubt that customers will find RWY's offer so compelling relative to RCII and other competing offers that it will be able to rent five times more PCs per store at maturity than RCII.

14. Nevertheless, we assume that RWY can obtain $69M in revenue from Gateway rentals in FY01. Of course, one problem is that the greater commitment to renting (Gateway) PCs suggests there will be some cannibalization of existing business for three reasons. First, the extra space dedicated to PC rentals (which seems to be much more space than was devoted to the Compaq/Dell rent-to-own program) was being used to support non-PC sales. There should be some impact on core business sales with less store floor space devoted to the core business. Second, to the extent that the Gateway rentals are to existing customers, these customers have limited incomes, and it is likely that many of them will choose to rent a PC instead of another item such as a TV or appliance. RWY claims about 70% of its customers are repeat customers. Third, rental revenue from Compaq/Dell PC's should decline substantially as these are no longer being offered. The owner of a private RTO chain told us that efforts to increase store volume through new products such as computers and cell phones have not been successful at his stores due to cannibalization of existing business. His customers, like RWY's, have limited funds available and must choose.

Importantly, at a reported 20,000 units on rent at $40 per week, $40M of existing revenue is being phased out as renters return the PCs or exercise their buy out provisions. We doubt that the reduction in Compaq/Dell revenue, or any impact on other existing business is fully reflected in "street" models.

One "street" model appears to have increased revenue by $62M and EPS by $0.30 to reflect the Gateway deal, with similar increases in other models. We calculate the $0.30 accretion is equivalent to $11.8M pre-tax representing a 19% pre-tax margin. We estimate the Gateway business will generate incremental revenue of $46M in FY01. This is net of reduced Compaq/Dell and non-PC revenue. A 20% pre-tax margin yields incremental EPS of $0.24.

15. There is another problem with the Gateway business in our opinion. RWY is

depreciating the Gateway PCs over 24 months, but had been depreciating the Dell and Compaq PC's over 15 months. The base model Gateway Astro is a low end PC with high obsolescence risk. Assuming our estimate of a 20% pre-tax margin is accurate (it may even be too generous), we estimate that using a 15 month depreciable life would turn the pre-tax operating margins negative. Instead of negative operating margins, RWY will have high residual risk.

Using management guidance of about $0.35 accretion in FY01, using our pre-tax margin estimate of 20%, and assuming for every four PCs on rent one would be in stock, Table 8 calculates depreciation expense under both 24 month and 15 month assumptions. If the PCs were depreciated over 15 months, we calculate the $0.35 EPS accretion would turn into ($0.13) dilution. Once again, RWY's reliance on slow depreciation rates is critical to its ability to report operating profits. The question is how real are those reported profits?

Table 8

	GW EPS est at 24 mo dep	%	GW EPS est at 15 mo dep	%
revenue	68,851,066		68,851,066	
dep exp	28,211,484		45,138,374	
other exp	26,869,370		26,869,370	
total exp	55,080,853		72,007,743	
pre-tax	13,770,213	20%	(3,156,677)	-5%
inc tax	5,370,213		0	
net	8,400,000		(3,156,677)	
shares out	24,000,000		24,000,000	
EPS impact	0.35		(0.13)	
PC's on rent	60,184		60,184	
PC's off rent	15,046		15,046	
total inventory	75,231		75,231	
average cost	750		750	
total cost	56,422,967		56,422,967	
annual dep	28,211,484		45,138,374	

Like other PC vendors, after carrying existing models for several months or a year, RWY will be forced for competitive reasons to carry newer models offering better performance and features. Since the Gateway deal to the customer is a week by week rental with no further obligation, customers will be free to return their original PCs and rent upgraded models as soon as they become available. In fact, on our visit to a store, the salesperson's pitch was that rent-to-rent PC is a better deal than rent-to-buy because the PC will become obsolete and we would be free to trade in for a newer upgraded model as soon as it becomes available.

Of course, the price on the upgraded models should not increase as PC manufacturers have always added functionality and speed without increasing prices. RWY will then be stuck with Astro PCs which are discontinued, low-end and non-upgradeable. Furthermore, the Astro is a closed chassis and repairs can only be made by shipping the PC to Gateway, according to an Astro product review.

Due to the nature of the rent-to-rent transaction and due to high obsolescence

and residual risk, we would argue that the depreciable life of these low end Gateways should be at least comparable to the 15 month depreciation schedule used for the Compaq and Dells. The Compaq and Dells have been rented under traditional rent to own arrangements and are higher end systems, both of which reduce residual risk. We also think an accelerated method of depreciation should be used instead of straight line. Surely new PCs are easier to rent than used PCs, and these PCs will become less desirable in the second year, as they age and new PCs with better features and lower prices enter the market. Using straight line depreciation has the effect of front end loading the reported profits from the deal, in our view.

16. We doubt that rent-to-rent of PCs is a good business. At a minimum of $80 per month (and up to $120 per month for an upgraded PC and printer), even with free internet access, the rent-to-rent price would mainly appeal to those who are unable to purchase on credit for less than half the monthly cost. For example, an $800 PC could be purchased on credit by making 24 monthly payments of $37.66, (assuming a 12% interest rate).

Under the rental arrangement, the PC will of necessity be returned to the store. Therefore, the customer knows that any files and software loaded on the hard drive will be of only temporary use. Confidentiality may also be an issue, since many RWY customers may not be skilled enough in PC usage to delete all their files, and even erased files may be retrieved. These issues further limit the appeal of a rental PC.

An April 2000 Federal Trade Commission survey (entitled Survey of Rent-to-Own Customers) of over 500 customers of RTO stores revealed that 67% of customers intended to purchase the product upon initiating the rent-to-own transaction. Only 25% intended the transaction to be a temporary rental and 8% were unsure. This suggests that RWY will have to change its typical customer's purchase behavior to be successful in the "rent-to-rent" business.

Furthermore, a RCII store manager indicated that the reason that RCII only does rent-to-own is that customers do not like to rent used PCs. The store is required to put on the rental agreement that it is used merchandise. This suggests RWY may have a tougher time renting the PCs as the percentage of previously rented PCs increases throughout F2001.

A television, for example, seems much better suited to rental, since it can be rented at a lower cost, has much broader appeal to the low income segment, has much less residual risk and requires less maintenance and support.

Bullish observers liked the fact that Gateway announced it would invest $7M in RWY as part of the deal. We don't consider this investment an endorsement of RWY's business model. Assuming a 50% decline in RWY stock price, Gateway would incur a $3.5M non-operating loss. But if RWY were to rent 75 PCs per store at maturity and carry 25 in inventory, Gateway would earn about $90M in revenue, not including wholesale internet access fees and new store growth.

17. A private RTO operator told us he wouldn't rent PCs at even $25 per week on

rent to rent transactions because he doesn't think he would make any money. For one thing, he notes that the industry average collection on rented merchandise is only about 85%, which changes the estimated economics of the Gateway deal. Another problem he notes is that RWY's average gross margin is 75% (depreciation is the cost of revenue), while the gross margin on the Gateway business will be much lower (our estimate is 50%). Because he thinks that PC rentals will cannibalize other higher margin business, he doubts that any incremental profit can be generated. His view of the Gateway agreement? A great deal for Gateway, but Rent-Way won't make money.

18. Calls to stores indicate that the Gateway business seems to be off to a strong start, with the stores contacted renting about four per week on average. However, we doubt that the initial results will be indicative of what will happen in FY01 mainly for two reasons. First, the company has mailed flyers advertising the Gateway deal to all existing customers. This means that most existing customers who are attracted to the Gateway offer will likely rent the PCs in the current quarter. RWY states that about 70% of its customers in mature stores are repeat customers. Second, since the Gateway program is so new, there is very little "churn". Churn should build as some customers start to return PCs, reducing the unit growth rate. We think this could become a problem. We will be very interested to see if management will agree to discuss churn with investors. As these PCs age, they become less attractive relative to competing offers.

19. In two separate transactions in F2000, RWY acquired a 70% interest in dPi Teleconnect, a provider of prepaid local telephone service, for a total of $7.5M in cash. dPi's target market is those individuals who, for credit reasons, are not able to obtain a local phone service through a regular phone company. dPi charges $53.50 per month for local phone service, which is at least double the rate of traditional providers. There is also an activation fee of $45 which can be paid in three monthly installments. dPi is currently running a special of $30 for the first month, with the activation fee due in months two, three and four at $15 per month.

RWY became a majority stockholder in dPi in FQ300, and began reporting dPi on a consolidated basis. RWY reported dPi revenues of $4.2M and cost of revenues of $2.6M in FQ300. dPi began operations in May, 1999 and RWY has stated that dPi had 34,000 customers at FQ200 and 40,000 customers at FQ300. RWY has apparently told "street" analysts that dPi can achieve $20M in CY2000 sales (with neutral EPS impact) and $50M in FY01 sales. However, RWY has not provided guidance about costs and margins on this business in FY01 as it seems uncertain that dPi will make any money.

20. Given company disclosures of 34,000 customers at the end of June and 40,000 at the end of September, we estimate that dPi should have had revenues of at least $6M in the quarter instead of the $4.2M reported. We are unsure of the reason for the difference, unless churn was very high.

21. Comm South is the leader in the prepaid local phone market, with annual revenues of $107 million and monthly service cost of $40, according to a recent Dallas Business Journal article. Comm South sells its service through ACE

America's check cashing stores, as well as through other outlets.

22. Like the "rent to rent" PC business, we also doubt that selling prepaid local phone service is a good business, and we doubt that RWY will leverage its $7.5M investment into something that will materially contribute to EPS in the next few quarters. While it makes sense to try to leverage its existing store base to add new sources of revenue, this appears to be a low margin business without the accounting benefits of the core business. Problems typical of this business are high customer acquisition costs and high churn. We have included revenue of $41M and net income of $2M for FY01 in our financial projections.

23. According to the RCII 10K, there are approximately 8,000 rent-to-own stores in the U.S. The rent to own industry's target market is the about 24 million households with incomes of $20,000 to $40,000. RCII plans to accelerate its new store growth to 100 to 150 stores per year from the previous 100. RWY closed or merged more stores than it opened (excluding acquisitions) in F1998 and F1999 but is now aggressively opening new stores with 100 new stores planned for C2000 for about a 10% increase in stores per year. Though some bulls claim the rent-to-own market is not close to saturation, we are not convinced. An average of over 150 stores per state may be adequate considering the limited target market. If market saturation is an issue in at least some locations, new store growth will encroach on existing same store sales.

A recent "street" report notes that there appears to be few independent rental chains of over 25 units remaining. This may explain why both RWY and RCII are accelerating their new store growth instead of continuing to rely on acquisitions. This fact adds to the "execution" risk.

24. Financial projections:

"Street" models have RWY increasing operating income by about 30% and EPS by 40% in FY01. Most "street" models have both revenue and operating expenses increasing by 30%, with no increase in interest expense. Therefore the full 30% revenue increase translates into an equal percentage operating income growth, and the flat interest expense adds 10% more to EPS growth.

We predict 25% revenue growth in FY01, versus 30% "street" estimates. Table 9 shows our understanding of the components of "street" revenue growth in the first column and our revenue estimate by component in Column 3. We predict a lower net contribution from Gateway sales, due to cannibalization of existing Compaq/Dell revenue, and to some extent of other non-PC revenue. We predict a $31M increase in dPi revenue, over the $10M or so in FY01 (310% y/y growth).

Our other same store growth is lower due to the fact that FY00 "other revenue" appears to have been inflated by the Rentavision inventory liquidation. This inventory liquidation should largely be complete by the end of FY00. Our 3.7% estimate still represents an increase over Q300 ytd average comp store sales (excluding dPi) of 2.7% and could well be too generous.

Table 9

	"street"(1)	% (3)	OWS	% (3)
FY00 rev est	607,000		607,000	
net incr GW sales	62,000	10.2%	46,000	7.6%
incr in dPi sales	40,000	6.6%	31,000	5.1%
other same store	30,250	5.0%	22,250	3.7%
total same store	132,250	21.8%	99,250	16.4%
FY01 stores	14,250		14,250	
FY00 stores (2)	21,500		21,500	
Acquired rev:				
Rentavision	17,000		17,000	
FY01 rev est	792,000	30%	759,000	25%

(1) Using representative "street" model. "Street" models vary.
(1) Calculates "non-lapped" benefit from stores opened in F2000.
(1) This column shows the percentage contribution to same store sales growth in rows 2-5, and total y/y rev growth in the last row.

25. As shown in Table 10, we project RWY's operating margin will decline from 16.7% in FY00 ytd to 16% and its net margin will decline from 7.5% to 7.0%. This is in contrast to "street" estimates, which have RWY's net margin increasing to about 8%.

In order to provide an apples to apples comparison, we have excluded dPi revenue and cost of revenue from the ratio analysis for both years.

Table 10

	F2000 6/00 ytd	OWS F2001e
Rental revenue	373,675	637,500
Other revenue	63,956	80,500
Total non dPi Revenue	437,631	718,000
dPi revenue	4,256	41,000
Total revenue	441,887	759,000
Deprec. Rental Merch	103,180	179,749
Cost of dPi revenue	2,657	37,990
Deprec. Prop./Equip.	11,797	23,961
Amort. of Goodwill	9,828	13,200
Salaries and wages	108,918	178,994
Advertising	15,896	25,130
Occupancy	31,072	49,931
Other Operating	85,521	138,080
Total Expenses	368,869	647,035
Operating income	73,004	111,965
Interest Expense	(19,973)	(31,811)
Other, Net	(252)	0
Income Before Taxes	52,779	80,154
Income Taxes	20,158	31,260
Income After Taxes	32,621	48,894
Diluted Average Shs.	24,147	24,375
Dilutd EPS (annualized for FY00)	1.83	2.01
in % of revenue:		
Dep. of rental merch as % of rental rev	27.6%	28.2%
In % of non-dPi revenue:		
Dep. of PP&E	2.7%	3.3%
Amort. of Goodwill	2.2%	1.8%
Salaries and wages	24.9%	24.9%
Advertising	3.6%	3.5%

Occupancy	7.1%	7.0%
Other Operating	19.5%	19.3%
Op income	16.7%	15.6%
Interest Expense	-4.6%	-4.4%
Other, Net	-0.1%	0.0%
Income Before Taxes	12.1%	11.2%
Income Tax rate	38.2%	39.0%
Income After Taxes	7.5%	6.8%

26. The basis for our expense projections is summarized below:

We project depreciation of rental merchandise as a percentage of rental revenue will increase slightly from 27.6% to 28.2%. Part of the reason for the increase is that the Q300 ytd margin percentage benefited from the $29M of Rentavision inventory that was written down to just $12M. Note that this write down would generate both lower depreciation while the items were on rent and lower cost of goods sold on "cash and carry" sales. We think that the cost of goods sold on "cash and carry" sales is reported in the depreciation of rental merchandise line item.

The other reason why depreciation should increase in FY01 is that the Gateway computers have a higher depreciation rate than the company's average depreciation rate. The computers are depreciated over 24 months whether they are on rent or not. Even assuming that every computer in stock is on rent for the full 52 weeks, at an average revenue of $22 per week ($1,144 per year), and assuming an average cost of $750, depreciation would be $375. The $375 depreciation expense divided by $1,144 revenue yields a depreciation rate of 33%. The actual deprecation rate should be higher as not every computer will be on rent every single week.

We project depreciation of PP&E will increase from 2.7% to 3.3% of sales. The increase is based on an analysis of the increase in capital expenditures required for the accelerated rate of new store openings planned for FY01 and the leasehold improvements/capex required for the Gateway build out, where new kiosks, wiring and design work is underway in all RWY stores. We have amortization of goodwill decreasing from 2.2% to 1.8% of sales, as the existing goodwill amortization is spread over a larger revenue base.

We have salaries and wages remaining at the 24.9% level of Q300 ytd. The accelerated rate of new store openings will increase salaries and wages as the new stores have lower sales than the mature stores. Also, there is likely to be labor cost pressure due to the tight labor market. However, increased revenue at existing stores should allow RWY to offset these increases through higher productivity per employee. We have advertising expense decreasing slightly from 3.6% to 3.5% of sales even though heavy advertising of the Gateway computers may be required to achieve the sales forecast. Co-op advertising from Gateway may be offsetting higher total advertising expenditures. We keep occupancy costs at 7% of sales as rent increases and the additional occupancy expense associated with the 100+ new stores with low first year revenue are offset by incremental Gateway revenue and other same store sales growth.

We have other operating costs decreasing from 19.5% to 19.3% of revenue. We think other operating expenses consist primarily of inventory write-offs (due

mostly to non-recovered/stolen merchandise), non-occupancy store expenses, distribution costs, medical and non-medical insurance and corporate overhead expenses. RWY should get some leverage on corporate overhead expenses, but distribution and medical costs should increase, and inventory losses on computers are likely to be higher than on furniture and appliances. We note that RWY uses the direct write off method so there is no reserve for inventory losses.

We estimate interest expense will increase to $31.8M, from about $27M in FY00. Our interest expense forecast is based on a projected cash flow analysis. We project negative free cash flow of approximately $50M in FY01. This is primarily due to continued inventory purchases in excess of depreciation and the increased level of capital expenditures necessary to support the accelerated rate of new store openings and the leasehold improvements on the Gateway "kiosk" build outs.

We also calculate that RWY's current average interest rate is 9.3% and this rate has increased somewhat over the last twelve months. We assume RWY's average interest rate remains at 9.3% in FY01. The higher average interest rate also contributes to the higher interest expense.

27. "Street" models are all over the map with regard to the breakdown of total expenses so we cannot compare our individual line item expense estimates to "street" models. Also, none of the "street" models we reviewed provide a quarterly breakdown for FY01. These shortcomings by "street" analysts probably mean that management has not provided detailed guidance for FY01. RWY has projected big EPS growth, but may not be sure how it will get there. We project EPS of just $2.00 versus consensus of $2.57.

28. Projections $000:

	12/99	3/00	6/00	9/00
	Q100	**Q200**	**Q300**	**Q400e**
Rental revenue	119,982	127,019	126,674	136,595
Other	20,929	21,868	21,159	22,500
Total non dPi Revenue	140,911	148,887	147,833	159,095
dPi revenue	0	0	4,256	6,000
Total revenue	140,911	148,887	152,089	165,095
Deprec. Rental Merch	31,158	36,317	35,704	38,520
Cost of dPi revenue	0	0	2,657	5,850
Deprec. Prop./Equip.	3,711	3,876	4,214	4,751
Amort. of Goodwill	3,259	3,278	3,291	3,300
Salaries and wages	36,157	35,148	37,624	40,092
Advertising	5,609	5,882	4,405	5,568
Occupancy	10,310	10,980	9,782	10,659
Other Operating	28,143	28,179	29,199	31,501
Total Expenses	118,347	123,660	126,876	140,241
Operating income	22,564	25,227	25,213	24,854
Interest Expense	(5,828)	(7,146)	(6,999)	(7,246)
Other, Net	(132)	(179)	59	0
Income Before Taxes	16,604	17,902	18,273	17,608
Income Taxes	6,476	6,976	6,706	6,867
Net income	10,128	10,926	11,567	10,741
Shares out	23,762	23,920	24,860	23,962
EPS	0.44	0.46	0.47	0.45

In % of non-dPi revenue:				
Total non dPi Revenue	100.0%	100.0%	100.0%	100.0%
Deprec. Rental Merch	22.1%	24.4%	24.2%	24.2%
Deprec. Prop./Equip.	2.6%	2.6%	2.9%	3.0%
Amort. of Goodwill	2.3%	2.2%	2.2%	2.1%
Salaries and wages	25.7%	23.6%	25.5%	25.2%
Advertising	4.0%	4.0%	3.0%	3.5%
Occupancy	7.3%	7.4%	6.6%	6.7%
Other Operating	20.0%	18.9%	19.8%	19.8%
In % of dPi revenue:				
dPi revenue	n/a	n/a	100.0%	100.0%
Cost of dPi revenue	n/a	n/a	62.4%	97.5%
in % of total revenue:				
Operating income	16.0%	16.9%	16.6%	15.1%
Interest Expense	4.1%	4.8%	4.6%	4.4%
Income Before Taxes	11.8%	12.0%	12.0%	10.7%
Income After Taxes	7.2%	7.3%	7.6%	6.5%
y/y				
Total revenue	13.7%	18.4%	24.7%	34.6%
Operating income	143.1%	50.3%	42.7%	25.6%
EPS	n/a	43.8%	30.6%	9.3%
Est. dilution on GW deal	n/a	n/a	(0.02)	(0.06)
Normalized EPS	n/a	n/a	0.49	0.51

	12/31/00 **Q101e**	3/31/01 **Q201e**	6/30/01 **Q301e**	9/30/01 **Q401e**
Rental revenue	144,578	156,561	158,537	177,824
Other	20,000	20,500	20,000	20,000
Total non dPi Revenue	164,578	177,061	178,537	197,824
dPi revenue	8,000	10,000	11,000	12,000
Total revenue	172,578	187,061	189,537	209,824
Deprec. Rental Merch	39,759	44,463	45,024	50,502
Cost of dPi revenue	7,650	9,440	10,100	10,800
Deprec. Prop./Equip.	5,292	5,819	6,267	6,583
Amort. of Goodwill	3,300	3,300	3,300	3,300
Salaries and wages	41,145	44,088	44,634	49,456
Advertising	5,760	6,197	6,249	6,924
Occupancy	11,191	12,394	12,498	13,848
Other Operating	31,270	34,173	34,458	38,180
Total Expenses	145,367	159,874	162,529	179,593
Operating income	27,211	27,186	27,007	30,231
Interest Expense	(7,432)	(7,702)	(8,164)	(8,513)
Income Before Taxes	19,779	19,484	18,843	21,718
Income Taxes	7,714	7,599	7,349	8,470
Net income	12,065	11,885	11,494	13,248
Shares out	24,000	24,300	24,500	24,700
EPS	0.50	0.49	0.47	0.54
In % of non-dPi revenue:				
Total non dPi Revenue	100.0%	100.0%	100.0%	100.0%
Deprec. Rental Merch	24.2%	25.1%	25.2%	25.5%
Deprec. Prop./Equip.	3.2%	3.3%	3.5%	3.3%
Amort. of Goodwill	2.0%	1.9%	1.8%	1.7%
Salaries and wages	25.0%	24.9%	25.0%	25.0%
Advertising	3.5%	3.5%	3.5%	3.5%
Occupancy	6.8%	7.0%	7.0%	7.0%
Other Operating	19.0%	19.3%	19.3%	19.3%

In % of dPi revenue:				
dPi revenue	100.0%	100.0%	100.0%	100.0%
Cost of dPi revenue	95.6%	94.4%	91.8%	90.0%
in % of total revenue:				
Operating income	15.8%	14.5%	14.2%	14.4%
Interest Expense	4.3%	4.1%	4.3%	4.1%
Income Before Taxes	11.5%	10.4%	9.9%	10.4%
Income After Taxes	7.0%	6.4%	6.1%	6.3%
Total revenue y/y	22.5%	25.6%	24.6%	27.1%
Operating income y/y	20.6%	7.8%	7.1%	21.6%
EPS y/y	14.3%	6.3%	-0.2%	19.7%
y/y EPS on normalized EPS	n/a	n/a	-4%	6%

	F2000e	**F2001e**
Rental revenue	510,270	637,500
Other	86,456	80,500
Total non dPi Revenue	596,726	718,000
dPi revenue	10,256	41,000
Total revenue	606,982	759,000
Deprec. Rental Merch	141,699	179,749
Cost of dPi revenue	8,507	37,990
Deprec. Prop./Equip.	16,552	23,961
Amort. of Goodwill	13,128	13,200
Salaries and wages	149,021	179,323
Advertising	21,464	25,130
Occupancy	41,731	49,931
Other Operating	117,022	138,080
Total Expenses	509,124	647,364
Operating income	97,858	111,636
Interest Expense	(27,219)	(31,811)
Other, Net	(252)	0
Income Before Taxes	70,387	79,825
Income Taxes	27,025	31,132
Net income	43,362	48,693
Shares out	24,126	24,375
EPS	1.79	2.00
In % of non-dPi revenue:		
Total non dPi Revenue	100.0%	100.0%
Deprec. Rental Merch	23.7%	25.0%
Deprec. Prop./Equip.	2.8%	3.3%
Amort. of Goodwill	2.2%	1.8%
Salaries and wages	25.0%	25.0%
Advertising	3.6%	3.5%
Occupancy	7.0%	7.0%
Other Operating	19.6%	19.2%
In % of dPi revenue		
dPi revenue	100.0%	100.0%
Cost of dPi revenue	82.9%	92.7%
in % of total revenue:		
Operating income	16.1%	14.7%
Interest Expense	4.5%	4.2%
Income Before Taxes	11.6%	10.5%
Income After Taxes	7.1%	6.4%
y/y		
Total revenue	22.8%	25.0%
Operating income	54.1%	14.1%
EPS	31.0%	11.6%
y/y EPS on normalized EPS	n/a	6.8%