IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF PENNSYLVANIA

UNITED STATES OF AMERICA	)
	)
v.	) Criminal No. Erie
	)
JEFFREY A. CONWAY	) (18 U.S.C. §371)

I N F O R M A T I O N

The United States Attorney charges:

INTRODUCTION

RELEVANT PERSONS AND ENTITIES

1. At all times relevant to this Information, Rent-Way, Inc., ("Rent-Way") was a corporation organized under the laws of the Commonwealth of Pennsylvania, with its headquarters in Erie, Pennsylvania. At all times relevant to this Information, Rent-Way's common stock was listed on the New York Stock Exchange, under the symbol "RWY". At all times relevant to this Information, PricewaterhouseCoopers, LLP, served as Rent-Way's independent external auditors.

2. From in and around February 1992 until on or about December 28, 2000, the defendant, JEFFREY A. CONWAY, was a certified public accountant ("CPA") who served, at various times, as Rent-Way's Chief Financial Officer ("CFO") and President. JEFFREY A. CONWAY became the President and Chief Operating Officer ("COO") of Rent-Way in September 1999.

JEFFREY A. CONWAY served as a Director of Rent-Way from February 2000 until he was asked to resign in December 2000.

3. From in and around October 1995 to in and around December 1999, Matthew J. Marini was the controller of Rent-Way. From in and around December 1999 to in and around December 2000, Marini was the Chief Accounting Officer of Rent-Way.

4. From in and around September 1999 to in and around July 2002, Jeffrey Underwood was the senior vice president in charge of operations for Rent-Way.

5. At various times relevant to this Information, while CONWAY served as Rent-Way's CFO, President, COO or Director, CONWAY directly supervised Matthew J. Marini and Jeffrey Underwood, co-conspirators not named as defendants herein.

GROWTH AND HISTORY OF RENT-WAY, INC.

6. Rent-Way offered various items of merchandise to consumers under rental purchase agreements, with an option for each consumer to purchase the merchandise at the end of the rental period. Merchandise rented to consumers included furniture, appliances, home entertainment equipment, jewelry, and computers. The company also owned a 70% share in its subsidiary, dPi Teleconnect (DPI), and provided prepaid local phone service to consumers on a monthly basis.

7. Rent-Way was initially formed in 1981 and operated one rent-to-own store in Erie, Pennsylvania. By 1993, the company had expanded to 19 stores. By the end of the fiscal year ending in September 1998, the company had grown to more than 450 stores. In fiscal year 1999, the company merged with Home Choice Holdings, Inc., acquiring 450 stores; and then acquired an additional 250 stores through its acquisition of RentaVision, Inc. By the end of fiscal year 1999, Rent-Way, Inc. was comprised of 1,114 stores throughout the United States.

RELEVANT PRINCIPLES FOR PUBLIC COMPANIES AND RENT-WAY

8. As a publicly owned corporation, Rent-Way's stock was traded on the New York Stock Exchange. As of July 26, 2000, the company had more than 24 million outstanding shares of common stock.

9. To sell securities to members of the public and maintain public trading of its securities in the United States, Rent-Way was required to comply with provisions of the federal securities laws, including the Securities Exchange Act of 1934 ("The Act") and rules and regulations promulgated thereunder, that were designed to ensure that the company's financial information was accurately recorded and disclosed to the public.

10. Under these regulations, Rent-Way was required to, among other things, (a) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) and other applicable criteria and (b) make and keep books, records, and accounts that accurately and fairly reflected the company's business transactions.

11. At all times relevant to this Information, the management of many public companies provided "guidance" to the investing public regarding anticipated earnings for upcoming reporting periods. Relying in part on the company's "guidance," many professional securities analysts then disseminated to the public their own estimates of the company's expected performance. These "earnings estimates" or "analysts' expectations" were closely followed by investors. Typically, if a company announced earnings that failed to meet or exceed analysts' expectations, the price of the company's securities declined.

RENT-WAY'S EARNINGS GUIDANCE

12. At all times relevant to this Information, analysts of Wall Street investment firms followed Rent-Way's

performance and “guidance” estimates regarding its expected earnings. These analysts considered, among other things, Rent-Way's management's “guidance” concerning estimated earnings, earnings per share, net income, and capital expenditures to gauge Rent-Way's performance and predict Rent-Way's expected earnings. Similarly, market participants and members of the investing public considered and relied upon Rent-Way's periodic financial reports concerning actual operating results.

13. Beginning at some time in and around December 1998, after the merger with Home Choice Holdings, Inc., there was a risk that Rent-Way's operating performance would fall short of the earnings estimates and analysts' earnings expectations. As the defendant, JEFFREY A. CONWAY, and his co-conspirators recognized, the insufficient performance coupled with the company's expenses created a substantial risk that, unless Rent-Way's performance improved, its earnings would fail to meet analysts' expectations and the market price of Rent-Way's securities would therefore decline. The conspirators then began an effort to circumvent the internal accounting controls and falsify Rent-Way’s books and records in order to artificially meet the analysts’ earnings projections.

14. On October 30, 2000, the company issued a press release announcing its investigation into certain accounting

matters, including possible accounting irregularities which, if confirmed, would result in the need to revise earlier reported unaudited financial results for fiscal year 2000. The company also announced that the Board of Directors' Audit Committee was conducting an investigation into the matter. The company's regular outside counsel and another New York law firm were retained to conduct the probe. The Dispute Analysis and Investigation Group of PricewaterhouseCoopers, LLP was also engaged to help review and reconstruct the company's books and records and assist in the investigation.

15. The price of Rent-Way stock dropped from its closing price of $23.44 on Friday, October 27, 2000, to its closing price of $5.00, on Tuesday, October 31, 2000, a decline of more than $18.00 per share.

COUNT ONE

Conspiracy

16. The allegations contained in paragraphs 1 through 15 are realleged and incorporated as if fully set forth herein.

17. From in and around December 1998 through on or about October 27, 2000, in the Western District of Pennsylvania and elsewhere, the defendant, JEFFREY A. CONWAY, and others whose identities are both known and unknown, did knowingly, willfully and unlawfully combine, conspire, confederate, and

agree together and with each other to commit offenses against the United States, namely (a) to falsify books, records, and accounts of Rent-Way, in violation of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5) and 78ff, and Title 17, Code of Federal Regulations, Section 240.13b2-1; and (b) to circumvent and knowingly fail to implement a system of internal accounting controls sufficient to provide reasonable assurances that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and other applicable criteria and to maintain accountability for assets, in violation of Title 15, United States Code, Sections 78m(b)(2)(B), 78m(b)(5), 78ff, and Title 17, Code of Federal Regulations, Section 240.13b2-1.

OBJECTS OF THE CONSPIRACY

False Books and Records

18. It was part of the conspiracy that the defendant, JEFFREY A. CONWAY, and others whose identities are both known and unknown, knowingly, willfully and unlawfully, would and did, directly and indirectly, falsify and cause to be falsified books, records, and accounts subject to Section 13(b)(2) of the Act, namely books, records, and accounts of Rent-Way, an issuer with a class of securities registered pursuant to the Act, which Rent-Way was required to make and keep in reasonable detail,

accurately and fairly reflecting the transactions and dispositions of the assets of Rent-Way, in violation of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5) and 78ff, and Title 17, Code of Federal Regulations, Section 240.13b2-1.

Circumvention of Internal Accounting Controls

19. It was further a part of the conspiracy that the defendant, JEFFREY A. CONWAY, and others whose identities are both known and unknown, knowingly, willfully and unlawfully, would and did, directly and indirectly, circumvent and knowingly fail to implement a system of internal accounting controls sufficient to provide reasonable assurances that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and other applicable criteria and to maintain accountability for assets, in violation of Title 15, United States Code, Sections 78m(b)(2)(B), 78m(b)(5), 78ff, and Title 17, Code of Federal Regulations, Section 240.13b2-1.

Manner and Means of the Conspiracy

20. In order to satisfy the earnings per share expectations of Wall Street analysts and Rent-Way investors, from in and around December 1998 through on or about October 27, 2000, the defendant, JEFFREY A. CONWAY, agreed with his co-conspirators that efforts needed to be taken to artificially

meet the earnings expectations of Wall Street analysts. In furtherance of the agreement, the conspirators knowingly circumvented Rent-Way's internal accounting controls and artificially inflated Rent-Way's publicly reported earnings by falsely reducing reported expenses, by overstating the value of various asset accounts, by causing false entries to be made in Rent-Way's general ledger, by taking steps to delay or hold the recognition of various expenses in the proper fiscal period, and by artificially inflating the value of Rent-Way inventory. As the CFO and President of Rent-Way during this time period, CONWAY willfully and deliberately ignored details concerning the accounting falsity and pursued the circumvention of Rent-Way's internal accounting controls by Marini and employees in the accounting department in order to artificially meet Rent-Way's earnings projections.

21. In the last quarter of 2000, although the false and fraudulent maintenance of Rent-Way's books and records and the circumvention of its internal accounting controls amounted to more than 35 million dollars, the falsification was discovered prior to the books and records being audited or publicly reported. The conspirators' objective of meeting the analysts' earnings expectations by publicly documenting the false numbers in filings with the SEC, was not achieved.

22. In order to meet earnings per share expectations by falsifying Rent-way's books and records and circumventing Rent-Way's internal accounting controls, members of the conspiracy employed a variety of techniques described more fully below. The major accounts affected by the circumvention of the internal accounting controls and a description of how the manipulations affected Rent-Way's earnings included the following:

a. Failure to Recognize Rental Merchandise and Other Expenses and Inflation of Other Income.

Rental merchandise was one of Rent-Way's largest asset accounts, and depreciation of rental merchandise and related losses were among the largest recurring expense items on Rent-Way's income statement. Generally, in each accounting period, Rent-Way recognized expenses for depreciation in rental merchandise and losses of rental merchandise, and recorded corresponding reductions in the rental merchandise asset account. Marini manipulated the rental merchandise accounts to artificially limit the recognition of rental merchandise expenses that should have been recognized in each quarter in which they were incurred. Typically, Marini was responsible for artificially increasing the rental merchandise asset account in order to hide the reversals of current depreciation and other rental merchandise related expenses. Marini would also take steps to artificially inflate the rental merchandise asset account and make corresponding entries to inflate miscellaneous or other income. This manipulation of the rental merchandise related accounts had the effect of understating expenses and overstating miscellaneous or other income by approximately $6.1 million in fiscal 1999 and $36.2 million in fiscal 2000.

b. <u>Inflation of Construction Inventory Account</u>.

Marini also used the construction inventory asset account for similar purposes. Marini would take steps to artificially inflate the construction inventory account and make corresponding entries to reduce miscellaneous expenses or to increase the miscellaneous or other income accounts. Manipulation of the construction inventory account had the effect of understating various operating and administrative expenses and overstating miscellaneous or other income by approximately $2.8 million in fiscal 2000.

c. <u>Improper Capitalization of Advertising Expenses</u>.

In the fourth quarter of fiscal 2000, Marini asked personnel in Rent-Way's advertising department to obtain fictitious advertising invoices from the company's outside advertising agency for future unidentified work. Marini then used these false advertising invoices to capitalize $1.59

million in current advertising expenses that should have been recognized in the current quarter.

d. Failure to Recognize Accounts Payable Expenses. Marini directed that unprocessed invoices be held at year end to circumvent the accounting system for recording expenses during fiscal 1999 and 2000. Unrecorded expenses at the end of fiscal 1999 that were deferred into fiscal 2000 totaled approximately $4.9 million. Unrecorded expenses at the end of fiscal 2000 totaled approximately $9.2 million.

e. Failure to Amortize Vendor Advertising Rebates. In fiscal 1999 and 2000, Marini caused advertising rebate, volume rebate, and purchase discount arrangements with the company's rental merchandise vendors to be reflected improperly as rebate receivables or operating income instead of amortizing them over time. Typically, vendors gave Rent-Way volume rebates, purchase rebates, and advertising rebates to cover part of the advertising costs Rent-Way incurred to promote the merchandise. The value of these rebates and discounts should have been amortized over time in accordance with the terms of the rebate and discount arrangements. Instead, Marini caused Rent-Way to prematurely book them as income. Marini also caused actual advertising rebate receivables to be overstated. This resulted in an overstatement of operating income by approximately $5.6 million in fiscal 1999 and $3 million in fiscal 2000.

f. Failure to Recognize Property and Equipment and Lease Obligations Expenses Associated with Closed Stores.

Rent-Way closed the Home Choice headquarters and twenty-seven stores during fiscal 1999, but failed to write off in that year the value of property and equipment related to those premises for which the company had not previously taken a reserve. The value of property and equipment that should have been written off totaled approximately $1.6 million. In addition, Marini caused approximately $944,000 in current legal fees, miscellaneous operating expenses and store fire damage costs to be applied to a previously established Home Choice merger liability accrual account, thus overstating operating income by approximately $944,000 in 1999.

g. Improper Capitalization of Insurance Expenses.

During fiscal 2000, Marini caused current insurance premium payments to be capitalized improperly by recording them as prepaid insurance even though the premium payments were a current period expense. This understated insurance expense by approximately $1.53 million in fiscal 2000.

h. Failure to Recognize Non-Rental Property and Equipment Expenses.

In May 2000, Marini directed the reversal of expenses for approximately $1.3 million in non-rental property and equipment write-offs (such as office equipment and furniture), which had been identified by Rent-Way's internal audit department as being non-existent, causing those assets to be added back to Rent-Way's books. Beginning in May 2000, Marini also directed employees to suspend Rent-Way's process of writing off non-rental property and equipment identified as non-existent by Rent-Way's internal audit department on a going forward basis, resulting in the improper deferral of expenses totaling approximately $1.75 million during the remainder of fiscal 2000.

i. Improper Capitalization of Certain Other Operating Expenses.

Marini caused employees to improperly capitalize expenses including certain vehicle repairs, computer equipment, leasehold improvements, store signs, furniture and fixtures, office supplies, and salaries of information technology employees working on Peoplesoft software enhancements. In total, approximately $11.7 million in expenses were capitalized inappropriately in fiscal 2000.

Deferral Of Operating Losses

23. In the ordinary course of business, Rent-Way would treat as an expense rental merchandise that was damaged beyond

repair (a "discard") or that was missing (a "missing"). The company's operations manual also required the write-off of the remaining value of rental merchandise when payments on the underlying rental agreement became 90 days past due (a "skip"). Company policy authorized store managers to determine when a discard, missing or skip should be entered into the Point of Sale ("POS") computer.

24. In September 1999, in order to falsely reduce reported expenses, knowingly circumvent the internal accounting controls of Rent-Way, and falsify Rent-way's books and records, the conspirators caused operations personnel to defer the write-off of skips for the remainder of the fiscal year. As a result, Rent-Way deferred approximately $550,000 of skips expense from fiscal 1999 to fiscal 2000.

25. During the last quarter of 2000, in order to artificially meet analysts' annual earnings expectations for Rent-Way, the conspirators caused operations personnel to improperly fail to record write-offs of approximately $1.1 million in skips, missing and discarded merchandise. Virtually all of the deferred skips, missings and discards were written-off at the beginning of October 2000. The deferral of write-offs at the end of fiscal 2000 was discovered prior to the issuance of the company's year-end financial results.

26. During fiscal 2000, as a result of the improper accounting entries, a larger than usual discrepancy developed between the company's general ledger (on which the adjustments were made) and the point of sale computer system ("POS System") used to track revenues and expenses at the store level. This created a risk that Rent-Way's auditors would notice the discrepancy and thereby uncover the fraud. In October 2000, in order to reconcile the POS System to the general ledger, Marini directed an employee in charge of the POS System to restore approximately $16 million in rental merchandise deletions back to the POS System. When the employee refused to make the adjustments to the POS System at Marini's direction, Marini asked the defendant, JEFFREY A. CONWAY, to talk to the employee. In order to ensure that the earnings estimates would be achieved, the defendant, JEFFREY A. CONWAY, talked to the employee and told him to support Marini's efforts regarding rental merchandise.

The Restatement

27. After the results of the internal investigation were presented to the board, the company filed its Annual Report for fiscal year 2000 with the SEC on August 23, 2001. The filing included a comprehensive Restatement of Rent-Way's financial statements for fiscal year 1998, fiscal year 1999 and

the first three quarters of fiscal year 2000 reflecting the following material overstatements of income:

Period Ended/SEC Filing	**Originally Reported Pretax Income (Loss)**	**As Restated**	**% Overstated Income or Understated Loss**
12/31/98 1st Quarter Fiscal 1999 10-Q	(10,866,000)	(16,865,000)	35.5% understatement
Period Ended/SEC Filing	**Originally Reported Pretax Income (Loss)**	**As Restated**	**% Overstated Income or Understated Loss**
3/31/99 2nd Quarter Fiscal 1999 10-Q	12,155,000	10,854,000	12%
6/30/99 3rd Quarter Fiscal 1999 10-Q	13,543,000	10,038,000	35%
9/30/99 Fiscal 1999 10-K	30,336,000	9,384,000	223%
12/31/99 1st Quarter Fiscal 2000 10-Q	16,604,000	6,925,000	139%
3/31/00 2nd Quarter Fiscal 2000 10-Q	17,902,000	3,263,000	448%
6/30/00 3rd Quarter Fiscal 2000 10-Q	18,283,000	3,634,000	403%

Overt Acts

28. In furtherance of the conspiracy and to effect its illegal objects, the defendant, JEFFREY A. CONWAY, and his co-

conspirators committed the following overt acts, among others, in the Western District of Pennsylvania and elsewhere:

29. In September 1999, in order to artificially meet the earnings per share projections for fiscal year 1999, the defendant, JEFFREY A. CONWAY, directed Underwood to order operations personnel to defer the write-off of skips for the remainder of the fiscal year. To avoid resistance from operators, the conspirators agreed to direct that no write-offs be taken without approval of a regional manager.

30. In mid-September 2000, in order to artificially meet the earnings per share projections, Underwood directed operations personnel not to write-off any skips for the remainder of the fiscal year without obtaining regional manager approval.

31. On or about December 22, 1999, the defendant, JEFFREY A. CONWAY, and Marini signed a representation letter addressed to PricewaterhouseCoopers, LLP, claiming that there had been no fraud at Rent-Way involving management or employees who had significant roles in the company's internal control. At that time, the defendant, JEFFREY A. CONWAY, was deliberately ignorant of the specific steps that Marini had taken to

artificially meet or beat Rent-Way's earnings per share projections.

32. In the fourth quarter of fiscal year 1999 Marini directed that unprocessed invoices be held at year end to circumvent the accounting system for recording expenses during fiscal year 1999.

33. In the fourth quarter of fiscal year 2000 Marini directed that unprocessed invoices be held at year end to circumvent the accounting system for recording expenses during fiscal year 2000.

34. In May 2000, Marini directed the reversal of expenses for approximately $1.3 million in non-rental property and equipment write-offs (such as office equipment and furniture), which had been identified by Rent-Way's internal audit department as being non-existent, causing those assets to be added back to Rent-Way's books.

35. In May 2000, Marini directed employees to suspend Rent-Way's process of writing off non-rental property and equipment identified as non-existent by Rent-Way's internal audit department on a going forward basis.

36. During the Summer of 2000, Marini caused employees to improperly capitalize other expenses including computer equipment, leasehold improvements, store signs, furniture and

fixtures, office supplies, and salaries of information technology employees working on Peoplesoft software enhancements.

37. In the fourth quarter of fiscal year 2000, Marini asked personnel in Rent-Way's advertising department to obtain fictitious advertising invoices from the company's outside advertising agency for future unidentified work.

38. On or about October 13, 2000, Marini directed an employee to restore approximately $16 million in rental merchandise deletions back to the POS System.

39. On or about October 19, 2000, when the employee refused to make the adjustments to the POS System at Marini's direction, Marini asked the defendant, JEFFREY A. CONWAY, to talk to the employee. In order to ensure that the earnings estimates would be achieved, CONWAY talked to the employee and told him to support Marini's efforts regarding rental merchandise.

40. During the fourth quarter of fiscal year 2000, the defendant, JEFFREY A. CONWAY, circumvented the internal accounting controls and requested internal auditors at Rent-Way to avoid auditing stores where larger write-offs were likely to be found so that expenses for the fourth quarter and fiscal year-end 2000 could be reduced.

All in violation of Title 18, United States Code, Section 371.

MARY BETH BUCHANAN
United States Attorney
PA ID No. 50254