IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF PENNSYLVANIA

UNITED STATES OF AMERICA	)	
	)	
v.	)	Criminal No. Erie
	)	(15 U.S.C. §§78j(b) & 78ff;
MATTHEW J. MARINI	)	18 U.S.C. §2;
	)	17 C.F.R. §240.10b-5)

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 Price Waterhouse Coopers, LLP, served as Rent-Way's independent external auditors.

2. From in and around October 1995 to in and around December 1999, the Defendant, MATTHEW J. MARINI, was the Controller and supervisor of the accounting staff at Rent-Way. In December 1999, MARINI was promoted to Chief Accounting Officer and served in that position until he was terminated by the company in and around December 2000.

3. From in and around February 1992 until on or about December 28, 2000, Jeffrey A. Conway, not named as a defendant herein, 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 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.

4. From in and around September 1999 until in and around July 2002, Jeffrey K. Underwood, not named as a defendant herein, 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 Chief Financial Officer, President, Chief Operating Officer or Director, Conway directly supervised the defendant MATTHEW J. MARINI and Jeffrey K. Underwood.

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 ACCOUNTING PRINCIPLES

8. Public companies, such as Rent-Way, typically report the financial results of their operations in financial statements that include both an Income Statement and Balance Sheet. A company's Income Statement reports, among other things, revenue recognized, expenses incurred, and income earned during a stated period of time - - usually for a fiscal quarter or a fiscal year. Within an Income Statement, expenses are generally subtracted from revenues to calculate income. A company's Balance Sheet reports, among other things, the assets and liabilities of a company at a point in time, usually as of the end of the company's fiscal quarter or fiscal year.

9. When companies spend money or incur costs, those expenditures can be accounted for in a number of ways. Some types of expenditures, most commonly those incurred by a company in its

normal operations, are treated as current or operating expenses. Examples include recurring costs such as salaries and wages, insurance, equipment rental, electricity, and maintenance contracts. In brief, almost all routine expenditures that a company makes are operating expenses. Other types of expenditures, most commonly those which result in the acquisition of, or improvement to, the company's assets, are treated as capital expenditures. Examples include purchases of real estate, manufacturing equipment, and computer equipment.

10. Operating expenses and capital expenditures generally receive different accounting treatment. Operating expenses are generally reported on a company's Income Statement and subtracted from revenues in the period in which the expense is incurred or paid, to derive net income. Capital expenditures, by contrast, are not subtracted from revenues and are not generally reflected on the Income Statement. Instead, capital expenditures are reflected as assets on a company's Balance Sheet and, depending on the nature of the asset and its expected useful life, are subject to depreciation. When a capital asset is depreciated, a portion of the asset's value is written off over a number of accounting periods. The portion of the asset's value that is depreciated for a given period is reflected as a current expense in each period and deducted from revenues on the Income Statement.

11. If a company transfers or reclassifies a given expenditure from an operating expense to a capital expenditure, that transfer will have the following effects in the reporting period for which the transfer is made: (a) the company's operating expenses will be reduced, and the company's net income will be increased by the amount reclassified or transferred; and (b) the value of the company's capital assets will increase by the amount reclassified.

12. 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.

13. 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 regulations promulgated thereunder, that were designed to ensure that the company's financial information was accurately recorded and disclosed to the public.

14. Under these regulations, Rent-Way was required to, among other things, (a) file with the Securities and Exchange Commission ("SEC") annual financial statements audited by an independent accountant (Forms 10-K); (b) file with the SEC quarterly updates of its financial statements that disclosed its

financial condition and the results of its business operations for each three-month period (Forms 10-Q); (c) 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 (d) make and keep books, records, and accounts that accurately and fairly reflected the company's business transactions.

15. At all times relevant to this Indictment, Rent-Way's quarterly and year-end financial statements were transmitted from Rent-Way's offices in Erie, Pennsylvania to the offices of the Securities and Exchange Commission in New York, New York by means of a wire communication through the Electronic Data Gathering, Analysis and Retrieval (EDGAR) electronic filing system. Rent-Way's fiscal year (FY) encompassed the period from October 1 to September 30 each year.

RENT-WAY'S COMMUNICATIONS WITH INVESTORS

16. At all times relevant to this Indictment, 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.

17. At all times relevant to this Indictment, 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.

18. Beginning at some time in and around December 1998, Rent-Way was not performing sufficiently to sustain the earnings estimates and analyst earnings expectations. As the defendant, MATTHEW J. MARINI, and Jeffrey A. Conway, not named as a defendant herein, 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.

Rent-Way Public Claims Concerning Earnings

19. In conjunction with the defendant's steps taken to artificially achieve the earnings estimates and analyst's expectations, on April 2, 1999; July 19, 1999; November 15, 1999; January 18, 2000; April 18, 2000; and July 19, 2000, the defendant, MATTHEW J. MARINI, caused Rent-Way to issue press releases falsely reporting "record earnings" or "record earnings per share" for the company during each of the preceding fiscal quarters. These press releases reflected Rent-Way's false claims that its reported earnings per share had consistently risen during each of the reported quarters. The defendant, MATTHEW J. MARINI, was primarily responsible for the financial statements that were issued along with the press releases.

20. 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 Director's Audit Committee was conducting an investigation into the matter. The company's regular outside counsel law firm and another New York law firm were retained to conduct the probe. The Dispute Analysis and Investigation Group of Price Waterhouse Cooper, LLP was also

engaged to help review and reconstruct the company's books and records and assist in the investigation.

21. The price of Rent-Way stock plummeted 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.

Fraud In Connection With The
<u>Purchase Or Sale of Securities</u>

22. During the period from in and around December 1998 to in and around October 2000, MATTHEW J. MARINI, the defendant, did unlawfully, willfully, and knowingly, directly and indirectly, by use of the means and instrumentalities of interstate commerce, the mails, and the facilities of national securities exchanges, employ manipulative and deceptive devices and contrivances in connection with the purchase and sale of securities issued by Rent-Way, in violation of Title 17, Code of Federal Regulations, Section 240.10b-5, by (a) employing and causing to be employed devices, schemes, and artifices to defraud; (b) making and causing Rent-Way to make untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaging in acts, practices, and courses of business which operated and would operate as a fraud and deceit upon the purchasers and sellers of Rent-Way securities.

23. As more fully set forth below, in order to satisfy the earnings per share expectations of the CFO and President of Rent-Way, Jeffrey A. Conway, and the expectations of Wall Street analysts and Rent-Way investors, from in and around December 1998 through on or about October 27, 2000, the defendant, MATTHEW J. MARINI, engaged in an illegal scheme to artificially inflate Rent-Way's publicly reported earnings by falsely and fraudulently reducing reported expenses and by overstating the value of various asset accounts. To effect this illegal scheme, the defendant, MATTHEW J. MARINI, caused false and fraudulent entries to be made in Rent-Way's general ledger, took steps to delay or hold the recognition of various expenses in the proper fiscal period, and artificially inflated the value of Rent-Way inventory.

24. The defendant, MATTHEW J. MARINI, was directed by Jeffrey A. Conway to do whatever needed to be done to meet Rent-Way's earnings projections, but not to disclose the details to him of what the defendant, MATTHEW J. MARINI, was doing to accomplish this goal.

25. Beginning in and around December 1998, as set forth in more detail below, the defendant, MATTHEW J. MARINI, directed Rent-Way's accounting staff to book entries falsely crediting various accounts and falsely debiting other accounts without supporting documentation or proper business rationale, thereby

falsely inflating, among other things, Rent-Way's publicly reported earnings, income, and earnings per share.

25. As a result of the fraudulent accounting entries, the defendant, MATTHEW J. MARINI, caused Rent-Way to file publicly, with the SEC, Forms 10-K and 10-Q that materially misstated, among other things, Rent-Way's net income, assets, liabilities, and earnings per share in every fiscal quarter from in and around December 1998 to in and around October 2000.

26. In order to falsify and inflate Rent-Way's quarterly and annual financial statements during fiscal year 1999 and the first, second, and third quarters of 2000, the defendant, MATTHEW J. MARINI, employed a variety of techniques described more fully below. The major accounts affected by the fraud and a description of how the manipulations affected Rent-Way's earnings included the following:

a. <u>Failure to Recognize Rental Merchandise and Other Expenses and Inflation of Other Income</u>.

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. Inflation of Construction Inventory Account.

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. Improper Capitalization of Advertising Expenses.

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 arrangements with the company's rental merchandise vendors to be reflected improperly as rebates receivables or operating income instead of amortizing those rebates over time. Typically, vendors gave Rent-Way rebates to cover part of the advertising costs Rent-Way incurred to promote the merchandise. The value of the advertising rebates should have been amortized over time in accordance with the terms of the advertising rebate 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. Failure to Recognize Shrinkage in Parts Inventory.

As of September 30, 1999, a physical inventory of merchandise parts by company personnel showed actual parts inventory on hand of $366,000, rather than the $1.408 million then reflected on the company's general ledger. MARINI failed to record the shrinkage in inventory and instead caused the general ledger balance to reflect parts inventory of approximately $1.408 million, resulting in an understatement of expenses in fiscal 1999 of approximately $1 million.

h. 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.

i. 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.

j. Improper Capitalization of Certain Other Operating Expenses.

MARINI caused employees to make manual journal entries to the general ledger that recharacterized vehicle repair expenses over $1,000 to a capital expense. During the summer of 2000, MARINI also directed a subordinate to capitalize all future automotive repair and maintenance expenses above $400, without consideration of the nature of the repairs. MARINI also caused employees to capitalize improperly 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. In total, approximately $11.7 million in expenses were capitalized inappropriately in fiscal 2000.

27. During fiscal 2000, as a result of the improper accounting entries, a discrepancy developed between the company's general ledger on which the defendant, MATTHEW J. MARINI, directed the adjustments be 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. MARINI proposed making improper adjustments to the POS System that would conceal the discrepancy and create the appearance of a balance between the general ledger and the POS System. Pursuant to the plan, MARINI then directed an employee to restore approximately $16 million in rental merchandise deletions back to the POS System.

28. In October 2000, as the fraud began to unravel, the defendant, MATTHEW J. MARINI, and Jeffrey A. Conway, took steps to conceal the fraudulent entries from other officers at Rent-Way and from the auditors. When Conway discovered that an employee in the accounting department was about to explain to the CFO why there was an imbalance between the general ledger and the POS System, Conway reprimanded the employee and directed the employee to misrepresent to the CFO the true nature of the discrepancy. When the employee refused, Conway himself misrepresented to the CFO the true nature of the discrepancy. A few days later, when the Chief Executive Officer ("CEO") of Rent-Way called Conway and the defendant, MATTHEW J. MARINI, to a meeting to discuss the problem, Conway and MARINI concocted a false explanation in order to conceal the true nature of the discrepancy from the CEO.

29. On the evening of Friday, October 27, 2000, the employee who was prevented by Jeffrey A. Conway, from telling the CFO the true nature of the problem, and another employee, approached the CFO and told him that the discrepancy between the general ledger and the POS System was a result of fraudulent entries that had been made to the rental merchandise account. The next day, the CEO confronted MARINI, who admitted to the scheme and disclosed CONWAY'S involvement in the fraud. The Rent-Way internal investigation ensued.

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

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

32. Fraudulent entries caused by the defendant, MATTHEW J. MARINI, on the 1999 and 2000 forms 10-Q and the 1999 form 10-K filed by Rent-Way with the Securities and Exchange Commission; resulted in 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
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%

Period Ended/SEC Filing	**Originally Reported Pretax Income (Loss)**	**As Restated**	**% Overstated Income or Understated Loss**
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%

33. The defendant, MATTHEW J. MARINI, signed Rent-Way's three fiscal 2000 Forms 10-Q. He also signed Rent-Way's fiscal 1999 Form 10-K.

34. In addition to the filings with the Commission, the defendant, MATTHEW J. MARINI, caused Rent-Way to issue press releases on February 2, 1999, April 19, 1999, July 19, 1999, November 15, 1999, January 18, 2000, April 18, 2000 and July 20, 2000 (the "Press Releases") which materially overstated Rent-Way's net income or understated Rent-Way's net loss for the subject period and contained other material misstatements concerning Rent-Way's financial performance.

All in violation of Title 15, United States Code, Sections 78j(b) and 78ff; Title 17, Code of Federal Regulations, Section 240.10b-5 and Title 18, United States Code, Section 2.

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