

Physical deterioration is not the main cause of depreciation of video tapes. If shown reasonable care, a video tape can last for over 200 plays.

There are two economic factors which are the major causes of the lessening in value of video tapes. The first is the pattern of the income stream generated by video tapes. When a new tape is released, there is considerable demand for it but soon that demand is sharply reduced. It is not unusual for a tape to generate 90% of it's income during the first 6 months of it's life.

The second economic factor is the practice by distributors of reducing the price of new tapes 30 to 60 days after they first appear on the market. Thus, a tape which might sell for \$60 to \$70 when first released can often be purchased from the same distributor 30 to 60 days later for \$15 to \$25.

An analysis was made of the value of the stock of a typical video rental store taking into consideration the depreciation factors described above. That analysis indicates that the stock of a typical video rental store has an average true cash value of about \$16.00 per tape. This is based on a breakdown of 80% "A" tapes and 20% "B" tapes. The more "A" tapes a store has, the higher the value per tape. The more "B" tapes a store has, the lower the value per tape. This analysis is also based on a store starting its business with new tapes rather than used tapes.

It was also discovered that the value of video tapes is closely approximated by applying the short-lived multipliers to acquisition costs of tapes by year of acquisition and then further reducing this figure by multiplying it by 50% to reach a true cash value estimate.

These guidelines are subject to change as the supply and demand factors of the rental video business change.