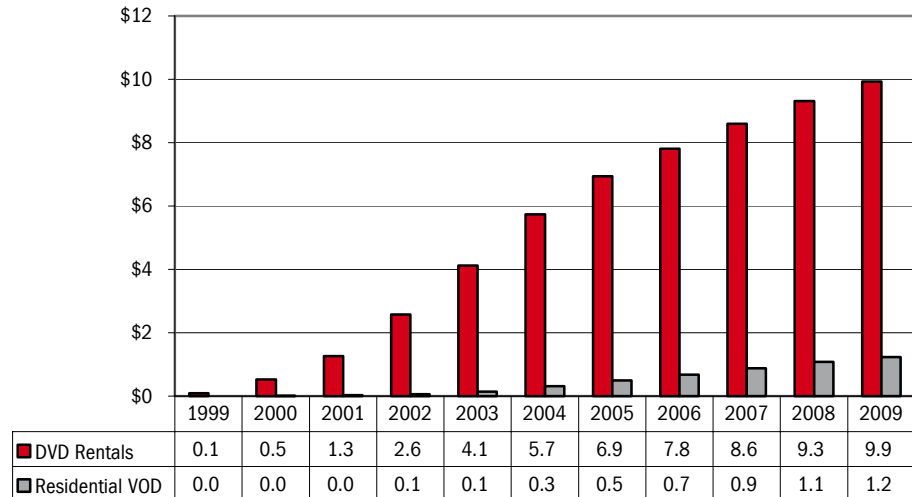


The DVD rental market is expected to continue to grow while video on demand will likely only account for a small portion of the overall market.

DVD Rental and Video on Demand Projection

(\$ billions)



Source: Veonis Suhler Stevenson Communications Industry Forecast.

In Denver, Redbox already enjoys a 15% market share of DVD rentals.

- ▶ **Interest from retailers for DVD kiosks.** Retailers are very interested in the installation of DVD kiosks. In addition to receiving location commissions (as is the case with Coinstar's coin-counting and entertainment businesses), retailers are expected to benefit from visits and repeat visits (upon returning DVDs) from DVD renters. McDonald's entered the DVD kiosk business in 2002 to promote its evening business, which currently only accounts for about 8% of sales. DVDs, which are most typically rented from 5-9 PM, are a way for McDonald's to drive traffic during slower evening hours.
- ▶ **Strong performance to date of Redbox and DVDXpress.** Redbox followed up on its 2004 test in Denver with a rollout at McDonald's locations in Houston, Minneapolis, Baltimore, Salt Lake City and St. Louis in 2005. As a result of the rollout, Redbox locations increased from 150 at the start of the year to over 800 by year-end. In January, Redbox announced an agreement to install kiosks in more than 400 Stop & Shops and Giant locations and recently announced another agreement to install kiosks in Smith's Food & Drug locations throughout Las Vegas, Salt Lake City, and Albuquerque. DVDXpress has enjoyed a similar ramp, although on a smaller scale (about 190 total locations). More importantly, the sales figures support the rollout: 1) in Denver, Redbox already enjoys a 15% market share of DVD rentals; 2) kiosks that have been in the field for over 12 months have enjoyed comps well into the double digits, and 3) together Redbox and DVDXpress saw an increase of over 85% in 4Q05 sales from 3Q05 sales.

- ▶ **Coinstar and McDonald's large retail base.** Combined, McDonald's and Coinstar provide for a very large and very strong base of retail locations. McDonald's has over 30,000 restaurant locations, while Coinstar's coin, entertainment, and e-pay services are in over 60,000 supermarkets, convenience, and mass merchant stores. We consider these to be prime locations for DVD kiosk due to their high traffic and high repeat visits among consumers.
- ▶ **Coinstar's only remaining required investment of \$12 million.** Despite the aforementioned positive characteristics, there is no doubt that the rollout of thousands of DVD kiosk involve significant risks due to the high capital costs required (roughly \$20,000 per unit today). However, following its initial \$20 million investment, Coinstar is only obligated for an additional \$12 million investment if certain metrics have been achieved by end of 2006. At that point, Coinstar can reassess its investment. We believe this option limits the downside risk to Coinstar in the DVD business.

Based on what we believe are conservative assumptions, we have valued Coinstar's DVD investment at \$4 per share. We expect that RedBox and DVDXpress will ultimately be combined into one entity that has the capacity to rollout 13,000 total units over the next 5-7 years. In the table below, we list some of our other major assumptions. We believe these estimates to be conservative.

DVD Business Assumptions

Category	Assumption	Basis of Assumption
New Machines Per Year	2,250	According to filings, RedBox is obligated to install 1,750 new machines in the year following Coinstar's investment for Coinstar to provide the additional \$12 million in financial support. Our estimate assumes that RedBox exceeds this minimum and DVDXpress installs several hundred additional units.
Total Machines	13,000	Consulting firm Dechert-Hampe has estimated that the U.S. market can accommodate 65,000-115,000 machines. Our estimate of 13,000 assumes Coinstar can assume a 20% market share of the low end of this estimate.
Percentage Rented	26%	Our assumption rests on each DVD rented 4 times per month for an average of 2 days, leading to a 26% rental rate. Based on RedBox press releases, we believe that Denver market machines exhibited a 40-45% rental rate during their first year. Our checks with retailers indicate that new releases are rented 66% to nearly 100% of the first several months on the market.
DVDs Per Machine	450	Current RedBox machines can accommodate 500 DVDs. We have estimated a more conservative 450.
Rental Price Per Day	\$1	RedBox machines rent DVDs for \$1 per day and DVDXpress machines charge \$1.49. We have used the lower rental rate for our estimate.
Average DVD Life	8 weeks	According to public statements, RedBox movies have a life of 14-16 weeks. However, we have estimated an <u>average</u> life of 8 weeks since inventory levels are adjusted weekly.
Net DVD Cost	\$8	Our \$8 estimate assumes a \$15 purchase price less a \$7 resale price.
Cost Per Machine	\$22,000	Machines currently cost \$19,000-\$24,000, including installation. This cost may very well decline as order levels increase.
DVD Market Life	10 years	Industry experts forecast a 10-15 year remaining life for the DVD market. Our estimate assumes a 10 year life with no continuing value.
Cost of Capital	12%	Our cost of capital of 12% is higher than Coinstar's cost of capital of 9.5% to account for risk.

Source: Company reports, Banc of America Securities LLC estimates.