UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Amendment No. 2)

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 0-25370

Rent-A-Center, Inc.

(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**45-0491516** *(I.R.S. Employer Identification No.)*

5700 Tennyson Parkway

Third Floor
Plano, Texas 75024
972-801-1100
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.01 per share

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☑ No o

Aggregate market value of the 79,704,580 shares of Common Stock held by non-affiliates of the registrant at the closing sales price on June 30, 2003	**$2,416,642,866**
Number of shares of Common Stock outstanding as of the close of business on March 8, 2004:	**81,949,634**

Documents incorporated by reference:

Portions of the definitive proxy statement relating to the 2004 Annual Meeting of Stockholders of Rent-A-Center, Inc. are incorporated by reference into Part III of this report.

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EXPLANATORY NOTE

The registrant is filing this Amendment No. 2 on Form 10-K/ A (this "Form 10-K/ A") to its Annual Report on Form 10-K for the year ended December 31, 2003 filed with the SEC on March 11, 2004, as amended by Amendment No. 1 on Form 10-K/ A filed with the SEC on April 6, 2004 (the "Form 10-K"), for the purpose of deleting a reference to a third party in Note E — Intangible Assets and Acquisitions of the Consolidated Financial Statements. The deletion was in response to a comment by the SEC staff to two of our registration statements on Form S-3s, which requested that we delete the reference to the third party or have the third party file a consent to be named as an expert in such registration statements. This Form 10-K/ A continues to speak as of the date that the initial Form 10-K was filed with the SEC, and we have not updated the disclosures herein to reflect any information or events subsequent to the filing of the initial Form 10-K. For a discussion of events and developments thereafter, please see our reports filed with the SEC since March 11, 2004, including the Quarterly Reports on Form 10-Q/ A for the quarter ended March 31, 2004 and Form 10-Q for the quarter ended June 30, 2004. Other than revisions to the signature pages as permitted by Rule 12b-15, the remainder of this Form 10-K/ A is unchanged and all subsequent references to "Form 10-K" shall refer to the initial Form 10-K, as amended by Amendment No. 1 and this Form 10-K/ A.

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PART I

Item 1. *Business*

Overview

Unless the context indicates otherwise, references to "we," "us" and "our" refers to the consolidated business operations of Rent-A-Center, Inc., the parent, and all of its direct and indirect subsidiaries.

We are the largest operator in the United States rent-to-own industry with an approximate 32% market share based on store count. At December 31, 2003, we operated 2,648 company-owned stores nationwide and in Puerto Rico, including 22 stores in Wisconsin operated by our subsidiary Get It Now, LLC under the name "Get It Now." Another of our subsidiaries, ColorTyme, Inc., is a national franchisor of rent-to-own stores. At December 31, 2003, ColorTyme had 329 franchised stores in 40 states, 317 of which operated under the ColorTyme name and 12 of which operated under the Rent-A-Center name. These franchise stores represent an additional 4% market share based on store count.

Our stores generally offer high quality, durable products such as home electronics, appliances, computers and furniture and accessories under flexible rental purchase agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed upon rental period. These rental purchase agreements are designed to appeal to a wide variety of customers by allowing them to obtain merchandise that they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. These agreements also cater to customers who only have a temporary need or who simply desire to rent rather than purchase the merchandise. Get It Now offers our merchandise on an installment sales basis in Wisconsin. We offer well known brands such as Philips, Sony, JVC, Toshiba and Mitsubishi home electronics, Whirlpool appliances, Dell, IBM, Compaq and Hewlett-Packard computers and Ashley, England, Berkline and Standard furniture. We also offer high levels of customer service generally at no charge, including repair, pick-up and delivery. Our customers benefit from the ability to return merchandise at any time without further obligation and make payments that build toward ownership. We estimate that approximately 63% of our business is from repeat customers.

Our principal executive offices are located at 5700 Tennyson Parkway, Third Floor, Plano, Texas 75024. Our telephone number is (972) 801-1100 and our company website is www.rentacenter.com. We do not intend for information contained on our website to be part of this Form 10-K. We make available free of charge on or through our website our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material or furnish it to the SEC. Additionally, we voluntarily will provide electronic or paper copies of our filings free of charge upon request.

Industry Overview

According to the Association of Progressive Rental Organizations, the rent-to-own industry consists of approximately 8,300 stores, and provides approximately 6.6 million products to over 2.9 million households. We estimate the 6 largest rent-to-own industry participants account for approximately 4,800 of the total number of stores, and the majority of the remainder of the industry consists of operations with fewer than 20 stores. The rent-to-own industry is highly fragmented and, due primarily to the decreased availability of traditional financing sources, has experienced, and we believe will continue to experience, increasing consolidation. We believe this consolidation trend in the industry presents opportunities for us to continue to acquire additional stores on favorable terms.

The rent-to-own industry serves a highly diverse customer base. According to the Association of Progressive Rental Organizations, 92% of rent-to-own customers have incomes between $15,000 and $50,000 per year. Many of the customers served by the industry do not have access to significant amounts of credit. For these customers, the rent-to-own industry provides an alternative for them to obtain brand name products. The Association of Progressive Rental Organizations also estimates that 93% of customers have high school diplomas. According to an April 2000 Federal Trade Commission study, 75% of rent-to-own customers were satisfied with their experience with rent-to-own transactions. The study noted that customers gave a wide variety of reasons for their satisfaction, including "the ability to obtain merchandise they otherwise could not, the low payments, the lack of a credit check, the convenience and flexibility of the transaction, the quality of the merchandise, the quality of the maintenance, delivery, and other services, the friendliness and flexibility of the store employees, and the lack of any problems or hassles."

Strategy

We are currently focusing our strategic efforts on:

- enhancing the operations and profitability in our store locations;
- opening new stores and acquiring existing rent-to-own stores both in the United States and internationally; and
- building our national brand

Enhancing Store Operations

We continually seek to improve store performance through strategies intended to produce gains in operating efficiency and profitability. For example, we continue to focus our operational personnel on prioritizing store profit growth, including the effective pricing of rental merchandise and the management of store level operating expenses. Similarly, we instituted safety and loss prevention programs to maintain store level productivity as well as to minimize costs related to our insurance programs.

We believe we will achieve further gains in revenues and operating margins in both existing and newly acquired stores by continuing to:

- use focused advertising and our new business relationships, such as our strategic alliances with McDonald's and Jackson-Hewitt, to increase store traffic;
- expand the offering of upscale, higher margin products, such as Philips, Sony, JVC, Toshiba and Mitsubishi home electronics, Whirlpool appliances, Dell, IBM, Compaq and Hewlett-Packard computers and Ashley, England, Berkline and Standard furniture to increase the number of product rentals;
- employ strict store-level cost control;
- closely monitor each store's performance through the use of our management information system to ensure each store's adherence to established operating guidelines;
- use a revenue and profit based incentive pay plan.

Opening New Stores and Acquiring Existing Rent-To-Own Stores

We intend to expand our business both by opening new stores in targeted markets and by acquiring existing rent-to-own stores and store account portfolios. We will focus new market penetration in adjacent areas or regions that we believe are underserved by the rent-to-own industry, which we believe represents a significant opportunity for us. In addition, we intend to pursue our acquisition strategy of targeting under-performing and under-capitalized chains of rent-to-own stores. We have gained significant experience in the acquisition and integration of other rent-to-own operators and believe the fragmented nature of the rent-to-own industry will result in ongoing consolidation opportunities. Acquired stores benefit from our administrative network, improved product mix, sophisticated management information system and purchasing power. In addition, we have potential access to our franchise locations, possessing the right of first refusal to purchase.

Since March 1993, our company-owned store base has grown from 27 to 2,648 at December 31, 2003, primarily through acquisitions. During this period, we acquired over 2,300 company-owned stores and over

350 franchised stores in more than 140 separate transactions, including seven transactions where we acquired in excess of 50 stores. The table below summarizes the store growth activity over the last three years.

	2003	2002	2001
New store openings	101	70	76
Acquired stores	160	83	95
Stores from which we acquired accounts	220	126	90
Closed stores			
Merged with existing stores	20	23	42
Sold	—	4	6
Total approximate purchase price of acquisitions	$126.1 million	$59.5 million	$49.8 million

In February 2003, we acquired substantially all of the assets of 295 stores located throughout the United States from Rent-Way, Inc. and certain of its subsidiaries for approximately $100.4 million in cash. Of the 295 stores, 176 were merged with existing locations. Since December 31, 2003, we have acquired 12 additional stores and additional accounts from five locations for approximately $3.9 million in cash and opened an additional 17 new stores. We also closed 18 stores, merging 11 of them with existing stores and selling seven, resulting in a total store count of 2,659 at March 8, 2004.

On February 4, 2004, we announced that we entered into a definitive agreement to acquire Rainbow Rentals, Inc., a rent-to-own operator, for $16.00 in cash per share of Rainbow common stock. This acquisition consists of 124 rent-to-own stores in 15 states. The agreement also provides that each holder of options of Rainbow will receive an amount equal to the difference between $16.00 and the exercise price of the option. We intend to fund the acquisition primarily with cash on hand. The acquisition, which is expected to be completed in the second quarter of 2004, is conditioned upon customary closing conditions for a transaction of this nature, including the receipt of requisite regulatory approval and approval of Rainbow's shareholders.

On March 5, 2004, we completed the purchase of five Canadian rent-to-own stores for $3.2 million Canadian dollars ($2.4 million U.S. dollars). The five stores are located in the cities of Edmonton and Calgary in the province of Alberta. This acquisition marks the commencement of our business operations in Canada.

We continue to believe there are attractive opportunities to expand our presence in the rent-to-own industry both nationally and internationally. We intend to increase the number of stores in which we operate by an average of approximately 5% to 10% per year over the next several years. We plan to accomplish our future growth through both selective and opportunistic acquisitions and new store development.

Building Our National Brand

We have implemented strategies to increase our name recognition and enhance our national brand. As part of that strategy, we utilize television and radio commercials, print, direct response and in-store signage, all of which are designed to increase our name recognition among our customers and potential customers. In 2003, we also began a sponsorship with the Woods Brothers NASCAR racing team, which we believe will further enhance our name recognition. We believe that as the Rent-A-Center name gains familiarity and national recognition through our advertising efforts, we will continue to educate the customer about the rent-to-own alternative to merchandise purchases as well as solidify our reputation as a leading provider of high quality branded merchandise.

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Our Stores

At December 31, 2003, we operated 2,648 stores nationwide and in Puerto Rico. In addition, our subsidiary ColorTyme franchised 329 stores in 40 states. This information is illustrated by the following table:

	Number of Stores	
Location	**Company Owned**	**Franchised**
Alabama	56	—
Alaska	6	—
Arizona	56	7
Arkansas	32	3
California	158	9
Colorado	36	4
Connecticut	30	5
Delaware	16	1
District of Columbia	4	—
Florida	154	13
Georgia	101	13
Hawaii	11	3
Idaho	7	5
Illinois	124	6
Indiana	106	6
Iowa	22	—
Kansas	31	19
Kentucky	41	4
Louisiana	42	5
Maine	23	10
Maryland	57	6
Massachusetts	48	7
Michigan	103	13
Minnesota	4	—
Mississippi	26	2
Missouri	71	9
Montana	6	4
Nebraska	11	—
Nevada	19	8
New Hampshire	14	2
New Jersey	40	8
New Mexico	13	9
New York	133	14
North Carolina	107	13
North Dakota	2	—
Ohio	160	3
Oklahoma	40	15
Oregon	24	7
Pennsylvania	102	4
Puerto Rico	25	—
Rhode Island	13	2
South Carolina	39	4
South Dakota	5	—
Tennessee	93	4
Texas	278	60
Utah	16	3
Vermont	7	—
Virginia	52	8
Washington	41	9
West Virginia	16	2
Wisconsin	22*	—
Wyoming	5	—
TOTAL	2,648	329

* Represents stores operated by Get It Now, LLC, one of our subsidiaries.

Our stores average approximately 4,400 square feet and are located primarily in strip centers. Because we receive merchandise shipments directly from vendors, we are able to dedicate approximately 75% of the store space to showroom floor, and also eliminate warehousing costs.

Rent-A-Center Store Operations

Product Selection

Our stores offer merchandise from four basic product categories: home electronics, appliances, computers and furniture and accessories. Although we seek to ensure our stores maintain sufficient inventory to offer customers a wide variety of models, styles and brands, we generally limit inventory to prescribed levels to ensure strict inventory controls. We seek to provide a wide variety of high quality merchandise to our customers, and we emphasize high-end products from name-brand manufacturers. For the year ended December 31, 2003, home electronic products accounted for approximately 40% of our store rental revenue, furniture and accessories for 34%, appliances for 16% and computers for 10%. Customers may request either new merchandise or previously rented merchandise. Previously rented merchandise is offered at the same weekly or monthly rental rate as is offered for new merchandise, but with an opportunity to obtain ownership of the merchandise after fewer rental payments.

Home electronic products offered by our stores include high definition ready and wide-screen televisions, DVD players, home entertainment centers, video cassette recorders and stereos from top name-brand manufacturers such as Philips, Sony, JVC, Toshiba and Mitsubishi. We rent major appliances manufactured by Whirlpool, including refrigerators, washing machines, dryers, microwave ovens, freezers and ranges. We offer personal and laptop computers from Dell, IBM, Compaq and Hewlett-Packard. We rent a variety of furniture products, including dining room, living room and bedroom furniture featuring a number of styles, materials and colors. We offer furniture made by Ashley, England, Berkline and Standard and other top name-brand manufacturers. Accessories include pictures, lamps and tables and are typically rented as part of a package of items, such as a complete room of furniture. Showroom displays enable customers to visualize how the product will look in their homes and provide a showcase for accessories.

Rental Purchase Agreements

Our customers generally enter into weekly or monthly rental purchase agreements, which renew automatically upon receipt of each payment. We retain title to the merchandise during the term of the rental purchase agreement. Ownership of the merchandise generally transfers to the customer if the customer has continuously renewed the rental purchase agreement for a period of 7 to 30 months, depending upon the product type, or exercises a specified early purchase option. Although we do not conduct a formal credit investigation of each customer, a potential customer must provide store management with sufficient personal information to allow us to verify their residence and sources of income. References listed by the customer are contacted to verify the information contained in the customer’s rental purchase order form. Rental payments are generally made in the store in cash, by money order or debit card. Approximately 85% of our customers pay on a weekly basis. Depending on state regulatory requirements, we charge for the reinstatement of terminated accounts or collect a delinquent account fee, and collect loss/damage waiver fees from customers desiring product protection in case of theft or certain natural disasters. These fees are standard in the industry and may be subject to government-specified limits. Please read the section entitled “— Government Regulation.”

Product Turnover

On average, a minimum rental term of 18 months is generally required to obtain ownership of new merchandise. We believe that only approximately 25% of our initial rental purchase agreements are taken to the full term of the agreement, although the average total life for each product is approximately 22 months, which includes the initial rental period, all re-rental periods and idle time in our system. Turnover varies significantly based on the type of merchandise rented, with certain consumer electronics products, such as camcorders and video cassette recorders, generally rented for shorter periods, while appliances and furniture are generally rented for longer periods. To cover the relatively high operating expenses generated by greater product turnover, rental purchase agreements require higher aggregate payments than are generally charged under other types of purchase plans, such as installment purchase or credit plans.

Customer Service

We generally offer same day or 24-hour delivery and installation of our merchandise at no additional cost to the customer. We provide any required service or repair without additional charge, except for damage in excess of normal wear and tear. Repair services are provided through our national network of 23 service centers, the cost of which may be reimbursed by the vendor if the item is still under factory warranty. If the product cannot be repaired at the customer’s residence, we provide a temporary replacement while the product is being repaired. The customer is fully liable for damage, loss or destruction of the merchandise, unless the customer purchases an optional loss/ damage waiver covering the particular loss. Most of the products we offer are covered by a manufacturer's warranty for varying periods, which, subject to the terms of the warranty, is transferred to the customer in the event that the customer obtains ownership.

Collections

Store managers use our management information system to track collections on a daily basis. For fiscal years 2003, 2002, and 2001, the average week ending past due percentages were 6.55%, 5.95% and 5.74%, respectively. For those fiscal years, our goal was to have no more than 6.50% of our rental agreements past due one day or more each Saturday evening. For the upcoming fiscal year, our goal is to have no more than 5.99% of our rental agreements past due one day or more each Saturday evening. If a customer fails to make a rental payment when due, store personnel will attempt to contact the customer to obtain payment and reinstate the agreement, or will terminate the account and arrange to regain possession of the merchandise. We attempt to recover the rental items as soon as possible following termination or default of a rental purchase agreement, generally by the seventh day. Collection efforts are enhanced by the numerous personal and job-related references required of customers, the personal nature of the relationships between store employees and customers and the fact that, following a period in which a customer is temporarily unable to make payments on a piece of rental merchandise and must return the merchandise, that customer generally may re-rent a piece of merchandise of similar type and age on the terms the customer enjoyed prior to that period. Charge-offs due to customer stolen merchandise, expressed as a percentage of store revenues, were approximately 2.3% in 2003 and 2.5% in each of 2002 and 2001.

Management

We organize our network of stores geographically with multiple levels of management. At the individual store level, each store manager is responsible for customer and account relations, delivery and collection of merchandise, inventory management, staffing, training store personnel and certain marketing efforts. Three times each week, store management is required to count the store's inventory on hand and compare the count to the accounting records, with the market manager performing a similar audit at least bi-monthly. In addition, our individual store managers track their daily store performance for revenue collected as compared to the projected performance of their store. Each store manager reports to a market manager within close proximity who typically oversees six to eight stores. Typically, a market manager focuses on developing the personnel in his or her market and ensuring all stores meet our quality, cleanliness and service standards. In addition, a market manager routinely audits numerous areas of the stores' operations, including gross profit per rental agreement, petty cash and customer order forms. A significant portion of a market manager's and store manager's compensation is dependent upon store revenues and profits, which are monitored by our management reporting system and our tight control over inventory afforded by our direct shipment practice.

At December 31, 2003, we had 348 market managers who, in turn, reported to 56 regional directors. Regional directors monitor the results of their entire region, with an emphasis on developing and supervising the market managers in their region. Similar to the market managers, regional directors are responsible for ensuring store managers are following the operational guidelines, particularly those involving store presentation, collections, inventory levels and order verification. The regional directors report to eight senior vice presidents located throughout the country. The regional directors receive a significant amount of their compensation based on the profitability of the stores under their management.

Our executive management team at the home office directs and coordinates purchasing, financial planning and controls, employee training, personnel matters, acquisitions and new store initiatives. Our executive management team also evaluates the performance of each region, market and store, including the use of on-site reviews. All members of our executive management team receive a significant amount of their total compensation based on the profits generated by the entire company. As a result, our business strategy emphasizes strict cost containment.

Management Information Systems

Through a licensing agreement with High Touch, Inc., we utilize an integrated management information and control system. Each store is equipped with a computer system utilizing point of sale software developed by High Touch. This system tracks individual components of revenue, each item in idle and rented inventory, total items on rent, delinquent accounts, items in service and other account information. We electronically gather each day’s activity report, which provides our executive management with access to all operating and financial information concerning any of our stores, markets or regions and generates management reports on a daily, weekly, month-to-date and year-to-date basis for each store and for every rental purchase transaction. The system enables us to track all of our merchandise and rental purchase agreements, which often include more than one unit of merchandise. In addition, our bank reconciliation system performs a daily sweep of available funds from our stores’ depository accounts into our central operating account based on the balances reported by each store. Our system also includes extensive management software, report-generating capabilities and a virtual private network. The virtual private network allows us to communicate with the stores more effectively and efficiently. The reports for all stores are reviewed on a daily basis by management and unusual items are typically addressed the following business day. Utilizing the management information system, our executive management, regional directors, market managers and store managers closely monitor the productivity of stores under their supervision according to our prescribed guidelines.

The integration of our management information system, developed by High Touch, with our accounting system, developed by Lawson Software, Inc., facilitates the production of our financial statements. These financial statements are distributed monthly to all stores, markets, regions and our executive management team for their review.

Purchasing and Distribution

Our executive management determines the general product mix in our stores based on analyses of customer rental patterns and the introduction of new products on a test basis. Individual store managers are responsible for determining the particular product selection for their store from the list of products approved by executive management. Store and market managers make specific purchasing decisions for the stores, subject to review by executive management. This is done on our new online ordering system. Additionally, we have predetermined levels of inventory allowed in each store which restrict levels of merchandise that may be purchased. All merchandise is shipped by vendors directly to each store, where it is held for rental. We do not utilize any distribution centers. These practices allow us to retain tight control over our inventory and, along with our selection of products for which consistent historical demand has been shown, reduces the number of obsolete items in our stores. The stores also have online access to determine whether other stores in their market may have merchandise available.

We purchase the majority of our merchandise from manufacturers, who ship directly to each store. Our largest suppliers include Ashley and Whirlpool, who accounted for approximately 14.9% and 13.3%, respectively, of merchandise purchased in 2003. No other supplier accounted for more than 10% of merchandise purchased during this period. We do not generally enter into written contracts with our suppliers that obligate us to meet certain minimum purchasing levels. Although we expect to continue relationships with our existing suppliers, we believe that there are numerous sources of products available, and we do not believe that the success of our operations is dependent on any one or more of our present suppliers.

Marketing

We promote the products and services in our stores through direct mail advertising, radio, television and secondary print media advertisements. Our advertisements emphasize such features as product and name-brand selection, prompt delivery and the absence of initial deposits, credit investigations or long-term obligations. In 2003, we also began a sponsorship with the Woods Brothers NASCAR racing team. Advertising expense as a percentage of store revenue for the years ended December 31, 2003, 2002 and 2001 was approximately 3.1%, 3.2% and 4.0%, respectively. As we obtain new stores in our existing market areas, the advertising expenses of each store in the market can be reduced by listing all stores in the same market-wide advertisement.

Competition

The rent-to-own industry is highly competitive. According to industry sources and our estimates, the six largest industry participants account for approximately 4,800 of the 8,300 rent-to-own stores in the United States. We are the largest operator in the rent-to-own industry with 2,648 stores and 329 franchised locations as of December 31, 2003. Our stores compete with other national and regional rent-to-own businesses, as well as with rental stores that do not offer their customers a purchase option. With respect to customers desiring to purchase merchandise for cash or on credit, we also compete with department stores, credit card companies and discount stores. Competition is based primarily on store location, product selection and availability, customer service and rental rates and terms.

ColorTyme Operations

ColorTyme is our nationwide franchisor of rent-to-own stores. At December 31, 2003, ColorTyme franchised 329 rent-to-own stores in 40 states. These rent-to-own stores offer high quality durable products such as home electronics, appliances, computers and furniture and accessories. During 2003, 37 new locations were added, 7 were closed and 19 were sold, of which 18 were sold to us.

All but 12 of the ColorTyme franchised stores use ColorTyme's tradenames, service marks, trademarks, logos, emblems and indicia of origin. These 12 stores are franchises acquired in the Thorn Americas acquisition and continue to use the Rent-A-Center name. All stores operate under distinctive operating procedures and standards. ColorTyme's primary source of revenue is the sale of rental merchandise to its franchisees who, in turn, offer the merchandise to the general public for rent or purchase under a rent-to-own program. As franchisor, ColorTyme receives royalties of 2.0% to 5.0% of the franchisees' monthly gross revenue and, generally, an initial fee of between $7,500 per location for existing franchisees and up to $35,000 per location for new franchisees.

The ColorTyme franchise agreement generally requires the franchised stores to utilize specific computer hardware and software for the purpose of recording rentals, sales and other record keeping and central functions. ColorTyme retains the right to retrieve data and information from the franchised stores' computer systems. The franchise agreements also limit the ability of the franchisees to compete with other franchisees.

The franchise agreement also requires the franchised stores to exclusively offer for rent or sale only those brands, types and models of products that ColorTyme has approved. The franchised stores are required to maintain an adequate mix of inventory that consists of approved products for rent as dictated by ColorTyme policy manuals. ColorTyme negotiates purchase arrangements with various suppliers it has approved. ColorTyme's largest supplier is Whirlpool, which accounted for approximately 15% of merchandise purchased by ColorTyme in 2003.

ColorTyme is a party to an agreement with Wells Fargo Foothill, Inc., who provides $50.0 million in aggregate financing to qualifying franchisees of ColorTyme generally of up to five times their average monthly revenues. Under the Wells Fargo agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Wells Fargo can assign the loans and the collateral securing such loans to ColorTyme, with ColorTyme then succeeding to the rights of Wells Fargo under the debt agreements, including the right to foreclose on the collateral. An additional $15.0 million of financing is provided by Texas Capital Bank, National Association under an agreement similar to the Wells Fargo financing. Rent-A-Center East, a wholly owned subsidiary of Rent-A-Center, Inc., guarantees the obligations of ColorTyme under each of these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, up to a maximum amount of $65.0 million, of which $29.0 million was outstanding as of December 31, 2003. Mark E. Speese, Rent-A-Center's Chairman of the Board and Chief Executive Officer, is a passive investor in Texas Capital Bank, owning less than 1% of its outstanding equity.

ColorTyme has established a national advertising fund for the franchised stores, whereby ColorTyme has the right to collect up to 3% of the monthly gross revenue from each franchisee as contributions to the fund. Currently, ColorTyme has set the monthly franchisee contribution at $250 per store per month. ColorTyme directs the advertising programs of the fund, generally consisting of advertising in print, television and radio. ColorTyme also has the right to require franchisees to expend 3% of their monthly gross revenue on local advertising.

ColorTyme licenses the use of its trademarks to the franchisees under the franchise agreement. ColorTyme owns the registered trademarks ColorTyme®, ColorTyme-What's Right for You®, and FlexTyme®, along with certain design and service marks.

Some of ColorTyme's franchisees may be in locations where they directly compete with our company-owned stores, which could negatively impact the business, financial condition and operating results of our company-owned stores.

The ColorTyme franchise agreement provides us a right of first refusal to purchase the franchise location of a ColorTyme franchisee that wishes to exit the business.

Get It Now Operations

All of our Wisconsin stores are operated by our subsidiary Get It Now, LLC. Get It Now operates under a retail operation which generates installment credit sales through a retail transaction. As of December 31, 2003, we operated 22 company-owned stores within Wisconsin, all of which operate under the name "Get It Now."

Trademarks

We own various registered trademarks, including Rent-A-Center®, Renters Choice®, Remco® and Get It Now®. The products held for rent also bear trademarks and service marks held by their respective manufacturers.

Employees

As of March 5, 2004, we had approximately 15,181 employees, of whom 290 are assigned to our headquarters and the remainder are directly involved in the management and operation of our stores and service centers. As of the same date, we had approximately 18 employees dedicated to ColorTyme, all of whom were employed full-time. The employees of the ColorTyme franchisees are not employed by us. None of our employees, including ColorTyme employees, are covered by a collective bargaining agreement. However, in June 2001, the employees of six of our stores in New York, New York elected to be represented by the Teamsters union. However, we have not entered into a collective bargaining agreement covering these employees.

We believe relationships with our employees and ColorTyme's relationships with its employees are generally good. In connection with the settlement of the *Wilfong* matter finalized in December 2002, we entered into a four-year consent decree, which can be extended by the *Wilfong* court for an additional one year upon a showing of good cause. We also agreed to augment our human resources department and our internal employee complaint procedures, enhance our gender anti-discrimination training for all employees, hire a consultant mutually acceptable to the parties for two years to advise us on employment matters, provide certain reports to the EEOC during the period of the consent decree, seek qualified female representation on our board of directors, publicize our desire to recruit, hire and promote qualified women, offer to fill job vacancies within our regional markets with qualified class members who reside in those markets and express an interest in employment by us to the extent of 10% of our job vacancies in such markets over a fifteen month period, and to take certain other steps to improve opportunities for women. We initiated many of the above programs prior to entering into the settlement of the *Wilfong* matter.

Government Regulation

State Regulation

Currently 47 states, the District of Columbia and Puerto Rico have legislation regulating rental purchase transactions. We believe this existing legislation is generally favorable to us, as it defines and clarifies the various disclosures, procedures and transaction structures related to the rent-to-own business with which we must comply. With some variations in individual states, most related state legislation requires the lessor to make prescribed disclosures to customers about the rental purchase agreement and transaction, and provides time periods during which customers may reinstate agreements despite having failed to make a timely payment. Some state rental purchase laws prescribe grace periods for non-payment, prohibit or limit certain types of collection or other practices, and limit certain fees that may be charged. Nine states limit the total rental payments that can be charged. These limitations, however, generally do not become applicable unless the total rental payments required under an agreement exceed 2.0 times to 2.4 times of the disclosed cash price or the retail value of the rental product.

Minnesota, which has a rental purchase statute, and New Jersey and Wisconsin, which do not have rental purchase statutes, have had court decisions which treat rental purchase transactions as credit sales subject to consumer lending restrictions. In response, we have developed and utilized a separate rental agreement in Minnesota which does not provide customers with an option to purchase rented merchandise. In New Jersey, we have provided increased disclosures and longer grace periods. In Wisconsin, our Get It Now customers are provided an opportunity to purchase our merchandise through an installment sale transaction. We operate four stores in Minnesota and 40 stores in New Jersey. Our subsidiary Get It Now operates 22 stores in Wisconsin.

North Carolina has no rental purchase legislation. However, the retail installment sales statute in North Carolina recognizes that rental purchase transactions which provide for more than a nominal purchase price at the end of the agreed rental period are not credit sales under such statute. We operate 107 stores in North Carolina.

There can be no assurance that new or revised rental purchase laws will not be enacted or, if enacted, that the laws would not have a material and adverse effect on us.

Federal Legislation

To date, no comprehensive federal legislation has been enacted regulating or otherwise impacting the rental purchase transaction. We do, however, comply with the Federal Trade Commission recommendations for disclosure in rental purchase transactions.

From time to time, we have supported legislation introduced in Congress that would regulate the rental purchase transaction. Currently, the industry has sponsored two bills that have been introduced in Congress that we support. While both beneficial and adverse legislation may be introduced in Congress in the future, any adverse federal legislation, if enacted, could have a material and adverse effect on us.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. We believe these are all the material risks currently facing our business. Our business, financial condition or results of operations could be materially adversely affected by these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. You should also refer to the other information included or incorporated by reference in this report, including our financial statements and related notes.

We may not be able to successfully implement our growth strategy, which could cause our future earnings to grow more slowly or even decrease.

As part of our growth strategy, we intend to increase our total number of stores in both existing markets and new markets through a combination of new store openings and store acquisitions. We increased our store base by 123 stores in 2001, 126 stores in 2002 and 241 stores in 2003. Our growth strategy could place a significant demand on our management and our financial and operational resources. This growth strategy is subject to various risks, including uncertainties regarding our ability to open new stores and our ability to acquire additional stores on favorable terms. We may not be able to continue to identify profitable new store locations or underperforming competitors as we currently anticipate. If we are unable to implement our growth strategy, our earnings may grow more slowly or even decrease.

Our continued growth also depends on our ability to increase sales in our existing stores. Our same store sales increased by 8.0%, 6.0% and 3.0% for 2001, 2002 and 2003, respectively. As a result of new store openings in existing markets and because mature stores will represent an increasing proportion of our store base over time, our same store sale increases in future periods may be lower than historical levels.

If we fail to effectively manage our growth and integrate new stores, our financial results may be adversely affected.

The benefits we anticipate from our growth strategy may not be realized. The addition of new stores, both through store openings and through acquisitions, requires the integration of our management philosophies and personnel, standardization of training programs, realization of operating efficiencies and effective coordination of sales and marketing and financial reporting efforts. In addition, acquisitions in general are subject to a number of special risks, including adverse short-term effects on our reported operating results, diversion of management's attention and unanticipated problems or legal liabilities. Further, a newly opened store generally does not attain positive cash flow during its first year of operations.

There are legal proceedings pending against us seeking material damages. The costs we incur in defending ourselves or associated with settling any of these proceedings, as well as a material final judgment or decree against us, could materially adversely affect our financial condition by requiring the payment of the settlement amount, a judgment or the posting of a bond.

Some lawsuits against us involve claims that our rental agreements constitute installment sales contracts, violate state usury laws or violate other state laws enacted to protect consumers. We are also defending a class action lawsuit alleging we violated the securities laws and lawsuits alleging we violated state wage and hour laws. Because of the uncertainties associated with litigation, we cannot estimate for you our ultimate liability for these matters, if any. The failure to pay any judgment would be a default under our senior credit facilities and the indenture governing our outstanding subordinated notes.

Our debt agreements impose restrictions on us which may limit or prohibit us from engaging in certain transactions. If a default were to occur, our lenders could accelerate the amounts of debt outstanding, and holders of our secured indebtedness could force us to sell our assets to satisfy all or a part of what is owed.

Covenants under our senior credit facilities and the indenture governing our outstanding subordinated notes restrict our ability to pay dividends, engage in various operational matters, as well as require us to maintain specified financial ratios and satisfy specified financial tests. Our ability to meet these financial ratios and tests may be affected by events beyond our control. These restrictions could limit our ability to obtain future financing, make needed capital expenditures or other investments, repurchase our outstanding debt or equity, withstand a future downturn in our business or in the economy, dispose of operations, engage in mergers, acquire additional stores or otherwise conduct necessary corporate activities. Various transactions that we may view as important opportunities, such as specified acquisitions, are also subject to the consent of lenders under the senior credit facilities, which may be withheld or granted subject to conditions specified at the time that may affect the attractiveness or viability of the transaction.

If a default were to occur, the lenders under our senior credit facilities could accelerate the amounts outstanding under the credit facilities, and our other lenders could declare immediately due and payable all amounts borrowed under other instruments that contain certain provisions for cross-acceleration or cross-default. In addition, the lenders under these agreements could terminate their commitments to lend to us. If the lenders under these agreements accelerate the repayment of borrowings, we may not have sufficient liquid assets at that time to repay the amounts then outstanding under our indebtedness or be able to find additional alternative financing. Even if we could obtain additional alternative financing, the terms of the financing may not be favorable or acceptable to us.

The existing indebtedness under our senior credit facilities is secured by substantially all of our assets. Should a default or acceleration of this indebtedness occur, the holders of this indebtedness could sell the assets to satisfy all or a part of what is owed. Our senior credit facilities also contain certain provisions prohibiting the modification of our outstanding subordinated notes, as well as limiting the ability to refinance such notes.

A change of control could accelerate our obligation to pay our outstanding indebtedness, and we may not have sufficient liquid assets to repay these amounts.

Under our senior credit facilities, an event of default would result if a third party became the beneficial owner of 35.0% or more of our voting stock or upon certain changes in the constitution of our Board of Directors. As of December 31, 2003, we were required to make principal payments under our senior credit facilities of $4.0 million in 2004, $4.0 million in 2005, $4.0 million in 2006, $4.0 million in 2007, and $382.0 million after 2007. These payments reduce our cash flow. If the lenders under our debt instruments accelerate these obligations, we may not have sufficient liquid assets to repay amounts outstanding under these agreements.

Under the indenture governing our outstanding subordinated notes, in the event that a change in control occurs, we may be required to offer to purchase all of our outstanding subordinated notes at 101% of their original aggregate principal amount, plus accrued interest to the date of repurchase. A change in control also would result in an event of default under our senior credit facilities, which would allow our lenders to accelerate indebtedness owed to them.

Rent-to-own transactions are regulated by law in most states. Any adverse change in these laws or the passage of adverse new laws could expose us to litigation or require us to alter our business practices.

As is the case with most businesses, we are subject to various governmental regulations, including specifically in our case regulations regarding rent-to-own transactions. There are currently 47 states that have passed laws regulating rental purchase transactions and another state that has a retail installment sales statute that excludes rent-to-own transactions from its coverage if certain criteria are met. These laws generally require certain contractual and advertising disclosures. They also provide varying levels of substantive consumer protection, such as requiring a grace period for late fees and contract reinstatement rights in the event the rental purchase agreement is terminated. The rental purchase laws of nine states limit the total amount of rentals that may be charged over the life of a rental purchase agreement. Several states also effectively regulate rental purchase transactions under other consumer protection statutes. We are currently subject to outstanding judgments and other litigation alleging that we have violated some of these statutory provisions.

Although there is no comprehensive federal legislation regulating rental-purchase transactions, adverse federal legislation may be enacted in the future. From time to time, legislation has been introduced in Congress seeking to regulate our business. In addition, various legislatures in the states where we currently do business may adopt new legislation or amend existing legislation that could require us to alter our business practices.

Our business depends on a limited number of key personnel, with whom we do not have employment agreements. The loss of any one of these individuals could disrupt our business.

Our continued success is highly dependent upon the personal efforts and abilities of our senior management, including Mark E. Speese, our Chairman of the Board and Chief Executive Officer and Mitchell E. Fadel, our President and Chief Operating Officer. We do not have employment contracts with or maintain key-person insurance on the lives of any of these officers and the loss of any one of them could disrupt our business.

A small group of our directors and their affiliates have influence over the outcome of certain corporate transactions affecting us, including potential mergers or acquisitions, the constitution of our board of directors and sales or changes in control.

Affiliates of Apollo Management IV, L.P. hold all of our outstanding Series C preferred stock. Pursuant to the terms of a stockholders agreement entered into among us, Apollo, Mark E. Speese and certain other parties, Apollo has the right to designate two persons to be nominated to our board of directors. The terms of our Series C preferred stock as well as the stockholders agreement also contain provisions requiring Apollo’s approval to effect certain transactions involving us, including repurchasing shares of our common stock, declaring or paying any dividend on our common stock, increasing the size of our board of directors to more than eight persons, selling all or substantially all of our assets and entering into any merger or consolidation or other business combination.

These documents also provide that one member of each of our board committees must be a director who was designated for nomination by Apollo. In addition, the terms of our Series C preferred stock and the stockholders agreement restrict our ability to issue debt or equity securities with a value in excess of $10 million without the majority affirmative vote of our finance committee, and in most cases, require the unanimous vote of our finance committee for the issuance of our equity securities with a value in excess of $10 million.

Our organizational documents, Series C preferred stock and debt instruments contain provisions that may prevent or deter another group from paying a premium over the market price to our stockholders to acquire our stock.

Our organizational documents contain provisions that classify our board of directors, authorize our board of directors to issue blank check preferred stock and establish advance notice requirements on our stockholders for director nominations and actions to be taken at annual meetings of the stockholders. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law relating to business combinations. Our senior credit facilities, the indenture governing our subordinated notes and our Series C preferred stock certificate of designations each contain various change of control provisions which, in the event of a change of control, would cause a default under those provisions. These provisions and arrangements could delay, deter or prevent a merger, consolidation, tender offer or other business combination or change of control involving us that could include a premium over the market price of our common stock that some or a majority of our stockholders might consider to be in their best interests.

Our stock price is volatile, and you may not be able to recover your investment if our stock price declines.

The stock price of our common stock has been volatile and can be expected to be significantly affected by factors such as:

- quarterly variations in our results of operations, which may be impacted by, among other things, changes in same store sales and when and how many stores we acquire or open;

- quarterly variations in our competitors’ results of operations;

- changes in earnings estimates or buy/sell recommendations by financial analysts;

- the stock price performance of comparable companies; and

- general market conditions or market conditions specific to particular industries.

Item 2. ***Properties***

We lease space for all of our stores, as well as our corporate and regional offices, under operating leases expiring at various times through 2011. Most of these leases contain renewal options for additional periods ranging from three to five years at rental rates adjusted according to agreed-upon formulas. Store sizes range from approximately 1,900 to 17,000 square feet, and average approximately 4,400 square feet. Approximately 75% of each store's space is generally used for showroom space and 25% for offices and storage space. Our headquarters, including Get It Now, and ColorTyme's headquarters are each located at 5700 Tennyson Parkway, Plano, Texas, and consist of approximately 79,742 and 5,116 square feet devoted to our operations and ColorTyme's operations, respectively.

We believe that suitable store space generally is available for lease and we would be able to relocate any of our stores without significant difficulty should we be unable to renew a particular lease. We also expect additional space is readily available at competitive rates to open new stores. Under various federal and state laws, lessees may be liable for environmental problems at leased sites even if they did not create, contribute to, or know of the problem. We are not aware of and have not been notified of any material violations of federal, state or local environmental protection or health and safety laws, but cannot guarantee that we will not incur material costs or liabilities under these laws in the future.

Item 3. ***Legal Proceedings***

From time to time, we, along with our subsidiaries, are party to various legal proceedings arising in the ordinary course of business. Except as described below, we are not currently a party to any material litigation.

Colon v. Thorn Americas, Inc. The plaintiff filed this class action in November 1997 in New York state court. This matter was assumed by us in connection with the Thorn Americas acquisition, and appropriate purchase accounting adjustments were made for such contingent liabilities. The plaintiff acknowledges that rent-to-own transactions in New York are subject to the provisions of New York's Rental Purchase Statute but contends the Rental Purchase Statute does not provide Thorn Americas immunity from suit for other statutory violations. The plaintiff alleges Thorn Americas has a duty to disclose effective interest under New York consumer protection laws, and seek damages and injunctive relief for Thorn Americas' failure to do so. This suit also alleges violations relating to excessive and unconscionable pricing, late fees, harassment, undisclosed charges, and the ease of use and accuracy of its payment records. In the prayer for relief, the plaintiff requested class certification, injunctive relief requiring Thorn Americas to cease certain marketing practices and price their rental purchase contracts in certain ways, unspecified compensatory and punitive damages, rescission of the class members contracts, an order placing in trust all moneys received by Thorn Americas in connection with the rental of merchandise during the class period, treble damages, attorney's fees, filing fees and costs of suit, pre- and post-judgment interest, and any further relief granted by the court. The plaintiff has not alleged a specific monetary amount with respect to the request for damages.

The proposed class includes all New York residents who were party to our rent-to-own contracts from November 26, 1994. In November 2000, following interlocutory appeal by both parties from the denial of cross-motions for summary judgment, we obtained a favorable ruling from the Appellate Division of the State of New York, dismissing the plaintiff's claims based on the alleged failure to disclose an effective interest rate. The plaintiff's other claims were not dismissed. The plaintiff moved to certify a state-wide class in December 2000. The plaintiff's class certification motion was heard by the court on November 7, 2001 and, on September 12, 2002, the court issued an opinion denying in part and granting in part the plaintiff's requested certification. The opinion grants certification as to all of the plaintiff's claims except the plaintiff's pricing claims pursuant to the Rental Purchase Statute, as to which certification was denied. The parties have differing views as to the effect of the court's opinion, and accordingly, the court granted the parties permission to submit competing orders as to the effect of the opinion on the plaintiff's specific claims. Both proposed orders were submitted to the court on March 27, 2003, and on May 30, 2003, the court held a hearing regarding such orders. No order has yet been entered by the court. Regardless of the determination of the final certification order by the court, we intend to pursue an interlocutory appeal of the court's certification order.

We believe these claims are without merit and will continue to vigorously defend ourselves in this case. However, we cannot assure you that we will be found to have no liability in this matter.

Terry Walker, et. al. v. Rent-A-Center, Inc., et. al. On January 4, 2002, a putative class action was filed against us and certain of our current and former officers and directors by Terry Walker in federal court in Texarkana, Texas. The complaint alleged that the defendants violated Sections 10(b) and/or Section 20(a) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder by issuing false and misleading statements and omitting material facts regarding our financial performance and prospects for the third and fourth quarters of 2001. The complaint purported to be brought on behalf of all purchasers of our common stock from April 25, 2001 through October 8, 2001 and sought damages in unspecified amounts. Similar complaints were consolidated by the court with the Walker matter in October 2002.

On November 25, 2002, the lead plaintiffs in the Walker matter filed an amended consolidated complaint which added certain of our outside directors as defendants to the Exchange Act claims. The amended complaint also added additional claims that we, and certain of our current and former officers and directors, violated various provisions of the Securities Act as a result of alleged misrepresentations and omissions in connection with an offering in May 2001 and also added the managing underwriters in that offering as defendants.

On February 7, 2003, we, along with certain officer and director defendants, filed a motion to dismiss the matter as well as a motion to transfer venue. In addition, our outside directors named in the matter separately filed a motion to dismiss the Securities Act claims on statute of limitations grounds. On February 19, 2003, the underwriter defendants also filed a motion to dismiss the matter. The plaintiffs filed response briefs to these motions, to which we replied on May 21, 2003. A hearing was held by the court on June 26, 2003 to hear each of these motions.

On September 30, 2003, the court granted our motion to dismiss without prejudice, dismissed without prejudice the outside directors' and underwriters' separate motions to dismiss and denied our motion to transfer venue. In its order on the motions to dismiss, the court granted the lead plaintiffs leave to replead the case within certain parameters. However, on October 9, 2003, the lead plaintiffs filed a motion for reconsideration with the court with respect to the Securities Act claims. In that motion, they indicated they intend to replead their claims. We filed our response to this motion on October 24, 2003. No decision on the lead plaintiffs' motion has been entered by the court.

We believe the plaintiff's claims in this matter are without merit and intend to vigorously defend ourselves. However, we cannot assure you that we will be found to have no liability in this matter.

Gregory Griffin, et. al. v. Rent-A-Center, Inc. On June 25, 2002, a suit originally filed by Gregory Griffin in state court in Philadelphia, Pennsylvania was amended to seek relief both individually and on behalf of a class of customers in Pennsylvania, alleging that we violated the Pennsylvania Goods and Services Installment Sales Act and the Pennsylvania Unfair Trade Practices and Consumer Protection Law. The amended complaint asserts that our rental purchase transactions are, in fact, retail installment sales transactions, and as such, are not governed by the Pennsylvania Rental-Purchase Agreement Act, which was enacted after the adoption of the Pennsylvania Goods and Services Installment Sales Act and the Pennsylvania Unfair Trade Practices Act. Griffin's suit seeks class-wide remedies, including injunctive relief, unspecified statutory, actual and treble damages, as well as attorney's fees and costs.

In July 2002, we filed preliminary objections to the complaint in Griffin. On December 13, 2002, the court granted our preliminary objections and dismissed the plaintiffs' claims. On January 6, 2003, the plaintiffs filed a notice of appeal. The plaintiffs' appeal brief was filed on May 9, 2003 and we subsequently filed our response brief. Oral argument on the appeal was held on July 30, 2003 in the Superior Court of Pennsylvania. On December 2, 2003, the Superior Court of Pennsylvania issued an opinion finding that the court properly ruled that our rental purchase agreements are governed by the Pennsylvania Rental-Purchase Agreement Act and not the Pennsylvania Goods and Services Installment Sales Act. In doing so, the Superior Court reversed the trial court's dismissal of the plaintiffs' amended complaint and remanded the case back to the trial court for filing of an amended complaint. No amended complaint has been filed in this matter. On March 29, 2004, we received a letter from the plaintiffs' counsel indicating their intention to file an amended complaint alleging violations under the Pennsylvania Rental-Purchase Agreement Act. We believe the plaintiffs' claims in this matter are without merit and intend to vigorously defend ourselves. However, we cannot assure you that we will be found to have no liability in this matter.

Benjamin Griego, et al. v. Rent-A-Center, Inc., et al. This matter is a state-wide class action originally filed in San Diego, California on January 21, 2002 by Benjamin Griego. A similar matter, entitled *Arthur Carrillo, et al. v. Rent-A-Center, Inc., et al,* filed on April 12, 2002 in Los Angeles, California, was coordinated with *Griego* in the Superior Court for the County of San Diego on September 10, 2002.

On February 28, 2003, the plaintiffs filed a consolidated amended complaint alleging various claims, including that our cash sales prices exceed the pricing permitted under the California Rental Purchase Act, that the guaranteed merchandise replacement benefit in the third-party membership program offered by us to our customers in California violates the prohibitions in the Rental Purchase Act relating to the sale of loss damage waiver and property insurance, that the membership program prematurely offers service contracts to our customers, and that the fee for the membership program is excessive. In addition, the plaintiffs allege that portions of our form of rental purchase agreement in California do not strictly comply with the type-size requirements under the Rental Purchase Act. The plaintiffs further allege that our rental purchase documentation improperly references certain merchandise as "previously rented" rather than "used," does not contain all of the required disclosures and terms of the transaction, and includes language that the plaintiffs interpret as affording us rights not permitted under the applicable California statutes.

In accordance with a previously issued opinion from the California Legislative Counsel, we believe that the pricing formula utilized by us in California complies with the Rental Purchase Act. In addition, we believe that under California case law, courts have found that arrangements similar to the guaranteed merchandise replacement benefit offered to our customers do not constitute insurance.

Upon notification of the alleged violations, we promptly modified our rental purchase documentation in California, including increasing the type-size in the relevant portion of our rental purchase agreements from 9-point type to 10-point type and modifying the language in our rental purchase documentation to, among other things, refer to "previously rented" merchandise as "used." In addition, we dispute plaintiffs' interpretation of the language in our rental purchase agreement and note that the rights the plaintiffs contend were granted to us were never asserted by us. In connection with the revisions described above, we also modified our rental purchase documentation to clarify our disclosures and the disputed language. As part of that process, we promptly communicated to our California customers that their statutory rights remained intact. Accordingly, we believe that no harm to our customers could have occurred as a result of these claims.

The plaintiffs have not alleged specific damages in the amended complaint, but contend that no proof of actual harm or damage on the part of the individual consumer is necessary to establish recovery for these claims, which we vigorously dispute. Under the Rental Purchase Act, a consumer damaged by a violation of the Rental Purchase Act is entitled to recover actual damages, statutory damages equal to twenty-five percent of an amount equal to the total amount of payments to obtain ownership if all payments were made under the rental purchase agreement (but not less than $100 nor more than $1,000), reasonable attorney's fees and court costs, exemplary damages for intentional or willful violations, and equitable relief. The Rental Purchase Act also provides that with respect to certain violations, a rental purchase agreement is voidable by the consumer. Furthermore, the statute provides that if a lessor willfully discloses a cash price that exceeds the price permitted under the statute, the contract is void and the consumer is entitled to keep the merchandise and recover a full refund of all payments. A consumer who suffers any damage from a violation of the Consumer Legal Remedies Act is entitled to recover actual damages, injunctive relief, restitution, punitive damages, certain civil penalties and attorneys' fees and costs.

On October 17, 2003, the plaintiffs filed their motion for class certification. On October 24, 2003, we filed a motion to dismiss certain of the plaintiffs' claims and on October 31, 2003, filed our opposition to the plaintiffs' motion for class certification. The hearing on our motion to dismiss and plaintiffs' motion for class certification was held on November 14, 2003. On December 4, 2003, the court denied our motion to dismiss and granted the plaintiffs' motion for class certification. The class definition includes our customers in

California from February 1, 1999 through January 31, 2002, and encompasses customers who entered into approximately 400,000 rental purchase agreements. Such customers also purchased approximately 167,000 memberships. With respect to such rental purchase agreements, we believe that twenty-five percent of the total amount of payments to obtain ownership (the maximum percentage applicable to statutory damages) was approximately $500 per agreement on average. On February 20, 2004, the court ruled that it would enter an order certifying the class described above and, with respect to the cash price claims, a sub-class of our customers during the same time period who rented electronic appliances and entertainment equipment. We believe this sub-class encompasses customers who entered into approximately 245,000 of the 400,000 rental purchase agreements, with an average revenue of approximately $500 per agreement. On March 16, 2004, the court entered the certification order.

On February 13, 2004, we filed motions seeking rulings by the court on a series of legal questions applicable to plaintiffs' claims. The plaintiffs subsequently filed a cross-motion with respect to one of the legal questions. On April 2, 2004, the court ruled with respect to these motions. These rulings include that there is no requirement that class members prove actual damages resulting from violations of the Rental Purchase Act and that the pricing formula referenced in the Rental Purchase Act is merely evidence of permissible "cash prices" under the Rental Purchase Act as opposed to a statutory determination of permissible "cash prices." The court also ruled, without prejudice, that our service contracts made available under our membership program are offered and sold in violation of the Rental Purchase Act but agreed to allow us to present evidence to the contrary later in the proceeding. The court also concurred with our position that the contract terms for the membership program need not be contained in the rental purchase agreement.

A mediation with the plaintiffs' counsel is scheduled for April 23, 2004, and discovery in the case is continuing. At the hearing on April 2, the court, at the request of the parties, indicated a willingness to postpone the currently scheduled June 18, 2004 trial date to a later date.

In light of the recent decisions by the court, we are reviewing various options, including the prospect of seeking a writ of review from the California Court of Appeal on certain of the trial court's recent rulings, reviewing the extent to which the trial court rulings, such as that regarding permissible "cash prices," indicate a predominance of individualized claims justifying decertification of the class and exploring opportunities for a reasonable settlement of the case. In addition, we anticipate seeking a ruling from the trial court that any allowable statutory damages are limited to rental purchase agreements entered into within the one-year period prior to the plaintiffs' January 21, 2002 filing date, rather than the three-year period contended by plaintiffs due to California law provisions so limiting the imposition of mandatory civil penalties.

We continue to believe the claims in the plaintiffs' complaint are unfounded, that we have meritorious defenses to the allegations made and that a class should not have been certified by the court. We will continue to vigorously defend ourselves in this case, while seeking reasonable opportunities to resolve this matter. Nevertheless, we cannot assure you that we will be found to have no liability in this case.

Carey Duron, et. al. v. Rent-A-Center, Inc. This matter is a putative class action filed on August 29, 2003 in the District Court of Jefferson County, Texas by Carey Duron, who alleges we violated certain provisions of the Texas Business and Commerce Code relating to late fees and reinstatement fees charged by us under our rental purchase agreements in Texas. In the complaint, Duron alleges that her contract provided for a percentage late fee greater than that permitted by Texas law, that she was charged and paid a late fee in excess of the amount permitted by Texas law and that we had a policy and practice of assessing and collecting late fees or reinstatement fees in excess of that allowed by Texas law. Duron has not alleged specific damages in the complaint, but seeks to recover actual damages, statutory damages, interest, reasonable attorney's fees and costs of court.

When this matter was filed, we promptly investigated Duron's allegations, including the formula we use to calculate late fees and reinstatement fees in Texas. While we do not believe the formula utilized by us during this time period violated Texas law, in late 2003, we sent written notice to approximately 29,500 of our Texas customers for whom we had records and who were potentially adversely impacted by our calculation. We also refunded approximately $37,000 in the aggregate to the customers we could locate. In taking these measures, we believe we complied with the curative measures provided for under the Texas statute. We also reprogrammed our computer system in Texas to further clarify the formula by which late fees and reinstatement fees are calculated.

On November 26, 2003, we filed a motion for summary judgment in this matter. On December 4, 2003, Duron filed her motion for class certification. On March 11, 2004, we were notified that the court denied our summary judgment motion and granted Duron's motion for class certification. The certified class includes our customers in Texas from August 29, 1999 through March 5, 2004 who were charged and paid a late fee or reinstatement fee in excess of the amount permitted by Texas law.

Under the Texas statute, a consumer damaged by a violation is entitled to recover actual damages, statutory damages equal to twenty-five percent of an amount equal to the total amount of payments required to obtain ownership of the merchandise involved (but not less than $250 nor more than $1,000), reasonable attorney's fees and court costs. With respect to the approximately 29,500 Texas customers for whom we have records (representing approximately two years of the recently certified class), we believe that twenty-five percent of the total amount of payments to obtain ownership (the maximum percentage applicable to statutory damages) under those rental purchase agreements was approximately $500 per agreement on average.

We believe the claims in Duron's complaint are unfounded and that we have meritorious defenses to the allegations made. We further believe that a class should not have been certified by the court, and have appealed the court's certification order, which we are entitled to do as a matter of right under applicable Texas law. Although we intend to vigorously defend ourselves in this case, we cannot assure you that we will be found to have no liability in this matter.

State Wage and Hour Class Actions. We are subject to various actions filed against us in the states of Oregon, California and Washington alleging we violated the wage and hour laws of such states. As of December 31, 2003, we operated 24 stores in Oregon, 158 stores in California and 41 stores in Washington.

Rob Pucci, et. al. v. Rent-A-Center, Inc. On August 20, 2001, this putative class action was filed against us in state court in Multnomah County, Oregon alleging we violated various provisions of Oregon state law regarding overtime, lunch and work breaks, that we failed to pay all wages due to our Oregon employees, and various contract claims that we promised but failed to pay overtime. Pucci seeks to represent a class of all present and former executive assistants, inside/outside managers and account managers employed by us within the six year period prior to the filing of the complaint as to the contract claims, and three years as to the statutory claims, and seeks class certification, payments for all unpaid wages under Oregon law, statutory and civil penalties, costs and disbursements, pre- and post-judgment interest in the amount of 9% per annum and attorneys fees. On July 25, 2002, the plaintiffs filed a motion for class certification and on July 31, 2002, we filed our motion for summary judgment. On January 15, 2003, the court orally granted our motion for summary judgment in part, ruling that the plaintiffs were prevented from recovering overtime payments at the rate of "time and a half," but stated that the plaintiffs may recover "straight-time" to the extent plaintiffs could prove purported class members worked in excess of forty hours in a work week but were not paid for such time worked. The court denied our motion for summary judgment on the remaining claims. We strongly disagree with the court's rulings against our positions and requested that the court grant us interlocutory appeal on those matters. The plaintiffs filed a motion for summary judgment seeking to resolve certain factual issues related to the purported class, which was denied on July 1, 2003. On October 10, 2003, the court issued an opinion letter stating that it would certify a class and not permit an interlocutory appeal, and issued its written order to that effect on December 9, 2003. We subsequently filed a petition for a writ of mandamus with the Oregon Supreme Court, which was denied on January 24, 2004. We intend to continue to challenge the appropriateness of the court's class certification. Although we believe the court's certification ruling is inappropriate and that the claims remaining in this case are without merit, we cannot assure you we will be found to have no liability in this matter.

Jeremy Burdusis, et al. v. Rent-A-Center, Inc., et al./ Israel French, et al. v. Rent-A-Center, Inc. These matters pending in Los Angeles, California were filed on October 23, 2001, and October 30, 2001, respectively, and allege similar violations of the wage and hour laws of California as those in *Pucci.* The same law firm seeking to represent the purported class in *Pucci* is seeking to represent the purported class in *Burdusis.* The *Burdusis* and *French* proceedings are pending before the same judge in California. On March 24, 2003, the

Burdusis court denied the plaintiffs' motion for class certification in that case, which we view as a favorable development in that proceeding. On April 25, 2003, the plaintiffs in *Burdusis* filed a notice of appeal of that ruling, and on May 8, 2003, the *Burdusis* court, at our request, stayed further proceedings in *Burdusis* and *French* pending the resolution on appeal of the court's denial of class certification in *Burdusis.* On October 30, 2003, the plaintiffs' counsel in *Burdusis* and *French* filed a new non-class lawsuit in Orange County, California entitled *Kris Corso, et al. v. Rent-A-Center, Inc.* The plaintiffs' counsel later amended this complaint to add additional plaintiffs, totaling approximately 339 individuals. The claims made are substantially the same as those in *Burdusis.* On January 16, 2004, we filed a demurrer to the complaint, arguing, among other things, that the plaintiffs in *Corso* were misjoined. On February 19, 2004, the court granted our demurrer on the misjoinder argument, with leave for the plaintiffs to replead. On March 8, 2004, the plaintiffs filed an amended complaint in *Corso*, increasing the number of plaintiffs to approximately 540. The claims in the amended complaint are substantially the same as those in *Burdusis*. We intend to file a demurrer with respect to the amended complaint in the near future.

Kevin Rose, et al. v. Rent-A-Center, Inc. et al. This matter pending in Clark County, Washington was filed on June 26, 2001, and alleges similar violations of the wage and hour laws of Washington as those in *Pucci.* The same law firm seeking to represent the purported class in *Pucci* is seeking to represent the purported class in this matter. On May 14, 2003, the *Rose* court denied the plaintiffs' motion for class certification in that case, which we view as a favorable development in that proceeding. On June 3, 2003, the plaintiffs in *Rose* filed a notice of appeal. On September 8, 2003, the Commissioner appointed by the Court of Appeals denied review of the *Rose* court decision. On October 10, 2003, the *Rose* plaintiffs filed a motion seeking to modify the Commissioner's ruling, to which we responded on October 30, 2003. The Court of Appeals denied the plaintiffs' motion on November 26, 2003. Following the denial by the Court of Appeals, the plaintiffs' counsel filed 14 county-wide putative class actions in Washington with substantially the same claims as in *Rose.* The purported classes in these county-wide class actions range from approximately 20 individuals to approximately 100 individuals. In December 2003, we filed motions to dismiss the class allegations in each of the county-wide actions, arguing that the plaintiffs were collaterally estopped by virtue of the previous ruling in *Rose* denying state-wide class certification. Three of these motions were subsequently granted and one is still pending before the court. Accordingly, ten of the county-wide claims are proceeding as putative class actions, three are proceeding on an individual plaintiff basis and one has not been decided by the court. The plaintiffs have not filed motions to certify a class in any of the putative county-wide class actions. In the event they do so, we intend to vigorously oppose class certification.

Although the wage and hour laws and class certification procedures of Oregon, California and Washington contain certain differences that could cause differences in the outcome of the pending litigation in these states, we believe the claims of the purported classes involved in each are without merit. We cannot assure you, however, that we will be found to have no liability in these matters.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our common stock has been listed on the Nasdaq Stock Market® under the symbol "RCII" since January 25, 1995, the date we commenced our initial public offering. The following table sets forth, for the periods indicated, the high and low sales price per share of the common stock as reported. All prices and amounts have been adjusted to reflect the 5-for-2 split of our common stock effected in August 2003.

2003	High	Low
First Quarter	$22.920	$18.040
Second Quarter	30.736	21.352
Third Quarter	33.100	26.748
Fourth Quarter	35.120	28.910
2002	**High**	**Low**
First Quarter	$20.800	$12.300
Second Quarter	25.548	19.404
Third Quarter	23.742	18.036
Fourth Quarter	21.172	15.060

As of March 8, 2004, there were approximately 62 record holders of our common stock.

We have not paid any cash dividends on our common stock since the time of our initial public offering.

Cash dividend payments are subject to the restrictions in the indenture governing our subordinated notes. These restrictions would not currently prohibit the payment of cash dividends.

Any change in our dividend policy, including our dividend policy on our preferred stock, will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, contractual restrictions, financial condition, future prospects and any other factors our Board of Directors may deem relevant. In the past, we have been able to pay dividends on our preferred stock in cash or in additional shares of preferred stock. However, as required by the Certificate of Designations, Preferences and Relative Rights and Limitations governing our Series C preferred stock, we currently pay dividends on our preferred stock in cash. Currently, there are only two outstanding shares of our Series C preferred stock. You should read the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" discussed later in this report.

In October 2003, we eliminated our then current stock repurchase program and adopted a new stock repurchase program which allows us to repurchase up to $100.0 million in aggregate purchase price of our common stock. As of December 31, 2003, we had repurchased $26.8 million in aggregate purchase price of our common stock under our new stock repurchase program. In the fourth quarter, we made the following repurchases of our common stock:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs
October 1 through October 31	0	$ 0.0000	0	$100,000,000
November 1 through November 30	441,000	$32.4625	441,000	$ 85,661,963
December 1 through December 31	394,600	$31.6243	394,600	$ 73,163,267
Total	835,600	$32.0667	835,600	$ 73,163,267

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Item 6. *Selected Financial Data*

The selected financial data presented below for the five years ended December 31, 2003 have been derived from our consolidated financial statements as audited by Grant Thornton LLP, independent certified public accountants. All prices and amounts have been adjusted to reflect the 5-for-2 split of our common stock effected in August 2003. The historical financial data are qualified in their entirety by, and should be read in conjunction with, the financial statements and the notes thereto, the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included in this report.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(In thousands, except per share data)				
Consolidated Statements of Earnings					
Revenues					
Store					
Rentals and fees	$1,998,952	$1,828,534	$1,650,851	$1,459,664	$1,270,885
Merchandise sales	152,984	115,478	94,733	81,166	88,516
Installment sales	22,203	6,137	—	—	—
Other	3,083	2,589	3,476	3,018	2,177
Franchise					
Merchandise sales	45,057	51,514	53,584	51,769	49,696
Royalty income and fees	5,871	5,792	5,884	5,997	5,893
Total revenue	2,228,150	2,010,044	1,808,528	1,601,614	1,417,167
Operating expenses					
Direct store expenses					
Depreciation of rental merchandise	432,696	383,400	343,197	299,298	265,486
Cost of merchandise sold	112,283	84,628	72,539	65,332	74,027
Cost of installment sales	10,639	3,776	—	—	—
Salaries and other expenses	1,180,115	1,070,265	1,019,402	866,234	770,572
Franchise cost of merchandise sold	43,248	49,185	51,251	49,724	47,914
	1,778,981	1,591,254	1,486,389	1,280,588	1,157,999
General and administrative expenses	66,635	63,296	55,359	48,093	42,029
Amortization of intangibles	12,512	5,045	30,194	28,303	27,116
Class action litigation settlements	—	—	52,000(1)	(22,383) (2)	—
Total operating expenses	1,858,128	1,659,595	1,623,942	1,334,601	1,227,144
Operating profit	370,022	350,449	184,586	267,013	190,023
Interest expense, net	43,932	62,006	59,780	72,618	74,769
Non-recurring financing costs	35,260	—	—	—	—
Earnings before income taxes	290,830	288,443	124,806	194,395	115,254
Income tax expense	109,334	116,270	58,589	91,368	55,899
NET EARNINGS	181,496	172,173	66,217	103,027	59,355
Preferred dividends	—	10,212	15,408	10,420	10,039
Net earnings allocable to common shareholders	$ 181,496	$ 161,961	$ 50,809	$ 92,607	$ 49,316
Basic earnings per common share	$ 2.16	$ 2.20	$ 0.79	$ 1.52	$ 0.82
Diluted earnings per common share	$ 2.08	$ 1.89	$ 0.71	$ 1.18	$ 0.70

	Year Ended December 31,				
	2003	2002	2001	2000	1999
	(In thousands, except per share data)				
Consolidated Balance Sheet Data					
Rental merchandise, net	$ 682,367	$ 631,724	$ 653,701	$ 587,232	$ 531,223
Intangible assets, net	797,434	743,852	711,096	708,328	707,324
Total assets	1,831,302	1,626,652	1,630,315	1,486,910	1,485,000
Total debt	698,000	521,330	702,506	741,051	847,160
Total liabilities(3)	1,036,472	784,252	1,224,937	1,177,539	1,278,310
Stockholders' equity	794,830	842,400	405,378	309,371	206,690
Operating Data					
Stores open at end of period	2,648	2,407	2,281	2,158	2,075
Comparable store revenue growth(4)	3.0%	6.0%	8.0%	12.6%	7.7%
Weighted average number of stores	2,437	2,325	2,235	2,103	2,089
Franchise stores open at end of period	329	318	342	364	365

(1) Includes the effects of a pre-tax legal settlement of $52.0 million associated with the 2001 settlement of class action lawsuits in the states of Missouri, Illinois, and Tennessee.

(2) Includes the effects of a pre-tax legal reversion of $22.4 million associated with the 1999 settlement of three class action lawsuits in the state of New Jersey.

(3) As a result of the adoption of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, total liabilities also includes redeemable convertible voting preferred stock.

(4) Comparable store revenue for each period presented includes revenues only of stores open throughout the full period and the comparable prior period.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Overview

We are the largest rent-to-own operator in the United States with an approximate 32% market share based on store count. At December 31, 2003, we operated 2,648 company-owned stores nationwide and in Puerto Rico, including 22 stores located in Wisconsin and operated by our subsidiary Get It Now, LLC under the name "Get It Now." Another of our subsidiaries, ColorTyme, is a national franchisor of rent-to-own stores. At December 31, 2003, ColorTyme had 329 franchised stores in 40 states, 317 of which operated under the ColorTyme name and 12 stores of which operated under the Rent-A-Center name. Our stores generally offer high quality durable products such as home electronics, appliances, computers, and furniture and accessories under flexible rental purchase agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed-upon rental period. These rental purchase agreements are designed to appeal to a wide variety of customers by allowing them to obtain merchandise that they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. These agreements also cater to customers who only have a temporary need, or who simply desire to rent rather than purchase the merchandise.

We have pursued an aggressive growth strategy since 1989. We have sought to acquire underperforming stores to which we could apply our operating model as well as open new stores. As a result, the acquired stores have generally experienced more significant revenue growth during the initial periods following their acquisition than in subsequent periods. Because of significant growth since our formation our historical results of operations and period-to-period comparisons of such results and other financial data, including the rate of earnings growth, may not be meaningful or indicative of future results.

On March 5, 2004, we completed the purchase of five Canadian rent-to-own stores for $3.2 million Canadian dollars ($2.4 million U.S. dollars). The five stores are located in the cities of Edmonton and Calgary in the province of Alberta. This acquisition marks the commencement of our business operations in Canada.

We plan to accomplish our future growth through selective and opportunistic acquisitions, with an emphasis on new store development. Typically, a newly opened store is profitable on a monthly basis in the ninth to twelfth month after its initial opening. Historically, a typical store has achieved cumulative break-even profitability in 18 to 24 months after its initial opening. Total financing requirements of a typical new store approximate $450,000, with roughly 70% of that amount relating to the purchase of rental merchandise inventory. A newly opened store historically has achieved results consistent with other stores that have been operating within the system for greater than two years by the end of its third year of operation. As a result, our quarterly earnings are impacted by how many new stores we opened during a particular quarter and the quarters preceding it. There can be no assurance that we will open any new stores in the future, or as to the number, location or profitability thereof.

In addition, to provide any additional funds necessary for the continued pursuit of our operating and growth strategies, we may incur from time to time additional short or long-term bank indebtedness and may issue, in public or private transactions, equity and debt securities. The availability and attractiveness of any outside sources of financing will depend on a number of factors, some of which will relate to our financial condition and performance, and some of which are beyond our control, such as prevailing interest rates and general economic conditions. There can be no assurance additional financing will be available, or if available, will be on terms acceptable to us.

If a change in control occurs, we may be required to offer to repurchase all of our outstanding subordinated notes at 101% of their principal amount, plus accrued interest to the date of repurchase. Our senior credit facility restricts our ability to repurchase the subordinated notes, including in the event of a change in control. In addition, a change in control would result in an event of default under our senior credit facilities, which would allow our lenders to accelerate the indebtedness owed to them. In the event a change in control occurs, we cannot be sure we would have enough funds to immediately pay our accelerated senior credit facility obligations and all of the subordinated notes, or that we would be able to obtain financing to do so on favorable terms, if at all.

Forward-Looking Statements

The statements, other than statements of historical facts, included in this report are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may," "will," "would," "expect," "intend," "could," "estimate," "should," "anticipate" or "believe." We believe the expectations reflected in such forward-looking statements are accurate. However, we cannot assure you that such expectations will occur. Our actual future performance could differ materially from such statements. Factors that could cause or contribute to such differences include, but are not limited to:

- uncertainties regarding our ability to open new stores;
- our ability to acquire additional rent-to-own stores on favorable terms;
- our ability to enhance the performance of these acquired stores;
- our ability to control store level costs;
- our ability to realize benefits from our margin enhancement initiatives;
- the results of our litigation;
- the passage of legislation adversely affecting the rent-to-own industry;
- interest rates;
- our ability to collect on our rental purchase agreements;
- changes in our effective tax rate;
- changes in our stock price and the number of shares of common stock that we may or may not repurchase; and
- the other risks detailed from time to time in our SEC reports.

Additional factors that could cause our actual results to differ materially from our expectations are discussed under the section entitled "Risk Factors" and elsewhere in this report. You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Critical Accounting Policies Involving Critical Estimates, Uncertainties or Assessments in Our Financial Statements

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In applying accounting principles, we must often make individual estimates and assumptions regarding expected outcomes or uncertainties. As you might expect, the actual results or outcomes are generally different than the estimated or assumed amounts. These differences are usually minor and are included in our consolidated financial statements as soon as they are known. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Actual results related to the estimates and assumptions made by us in preparing our consolidated financial statements will emerge over periods of time, such as estimates and assumptions underlying the determination of our self-insurance liabilities. These estimates and assumptions are closely monitored by us and periodically adjusted as circumstances warrant. For instance, our liability for our self-insured retentions related to our workers compensation, general liability, medical and auto liability may be adjusted based on higher or lower actual loss experience. Although there is greater risk with respect to the accuracy of these estimates and assumptions because of the period over which actual results may emerge, such risk is mitigated by our ability to make changes to these estimates and assumptions over the same period.

In preparing our financial statements at any point in time, we are also periodically faced with uncertainties, the outcomes of which are not within our control and will not be known for prolonged periods of time. As discussed in Part I, Item 3 “Legal Proceedings” and the notes to our consolidated financial statements, we are involved in actions relating to claims that our rental purchase agreements constitute installment sales contracts, violate state usury laws or violate other state laws enacted to protect consumers, claims asserting violations of wage and hour laws in our employment practices, as well as claims we violated the federal securities laws. We, together with our counsel, make estimates, if determinable, of our probable liabilities and record such amounts in our consolidated financial statements. These estimates represent our best estimate, or may be the minimum range of probable loss when no single best estimate is determinable. We, together with our counsel, monitor developments related to these legal matters and, when appropriate, adjustments are made to liabilities to reflect current facts and circumstances.

We adopted SFAS No. 142, *Goodwill and Intangible Assets*, on January 1, 2002. It requires suspension of amortization on intangible assets with indefinite lives and establishes a requirement to test goodwill for impairment annually or at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. The impairment test for goodwill involves a two-step process: step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit. If the carrying amount exceeds the fair value, step two requires the comparison of the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. Any excess of the carrying value of the reporting unit goodwill over the implied fair value of the reporting unit goodwill will be recorded as an impairment loss. Fair value of the business units is determined using the income approach. Under the income approach, value is dependent on the present value of future cash flows and discount rates.

Based on an assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of our company as of, and for, the periods presented in this report. However, we do not suggest that other general risk factors, such as those discussed elsewhere in this report as well as changes in our growth objectives or performance of new or acquired stores, could not adversely impact our consolidated financial position, results of operations and cash flows in future periods.

Significant Accounting Policies

Our significant accounting policies are summarized below and in Note A to our consolidated financial statements included elsewhere herein.

Revenue. Merchandise is rented to customers pursuant to rental-purchase agreements which provide for weekly or monthly rental terms with non-refundable rental payments. Generally, the customer has the right to acquire title either through a purchase option or through payment of all required rentals. Rental revenue and fees are recognized over the rental term. No revenue is accrued because the customer can cancel the rental contract at any time and we cannot enforce collection for non-payment of rents. Get It Now’s revenue from the sale of merchandise through an installment credit sale is recognized at the time of the sale, as is the cost of the merchandise sold, net of a provision for uncollectable accounts.

Franchise Revenue. Revenue from the sale of rental merchandise is recognized upon shipment of the merchandise to the franchisee. Franchise fee revenue is recognized upon completion of substantially all services and satisfaction of all material conditions required under the terms of the franchise agreement.

Depreciation of Rental Merchandise. We depreciate our rental merchandise using the income forecasting method. The income forecasting method of depreciation we use does not consider salvage value and does not allow the depreciation of rental merchandise during periods when it is not generating rental revenue. The objective of this method of depreciation is to provide for consistent depreciation expense while the merchandise is on rent. On July 1, 2002, we began accelerating the depreciation on computers that are 21 months old or older and which have become idle using the straight-line method for a period of at least six months. The purpose for this change is to better reflect the depreciable life of a computer in our stores and to encourage the sale of older computers. Though this method will accelerate the depreciation expense on the affected computers, we do not expect it to have a material effect on our financial position, results of operations or cash flows in future periods.

General and Administrative Expenses. General and administrative expenses include all corporate overhead expenses related to our headquarters such as salaries, taxes and benefits, occupancy, administrative and other operating expenses, as well as regional directors' salaries, travel and office expenses.

Amortization of Intangibles. Amortization of intangibles consists primarily of the amortization of customer relationships and non-compete agreements resulting from acquisitions. Effective January 1, 2002, under SFAS 142 all goodwill and intangible assets with indefinite lives are no longer subject to amortization.

Recent Developments

Stock Repurchases. From January 1, 2004 through March 8, 2004, we repurchased 266,300 shares of our common stock pursuant to our common stock repurchase program for approximately $8.4 million.

Rainbow Rentals Acquisition. On February 4, 2004, we announced that we entered into a definitive agreement to acquire Rainbow Rentals, Inc., a rent-to-own operator, for $16.00 in cash per share of Rainbow common stock. The acquisition consists of 124 rent-to-own stores in 15 states. The agreement also provides that each holder of options of Rainbow will receive an amount equal to the difference between $16.00 and the exercise price of the option. We intend to fund the acquisition primarily with cash on hand. The acquisition, which is expected to be completed in the second quarter of 2004, is conditioned upon customary closing conditions for a transaction of this nature, including the receipt of requisite regulatory approval and approval of Rainbow's shareholders.

Canadian Acquisition. On March 5, 2004, we completed the purchase of five Canadian rent-to-own stores for $3.2 million Canadian dollars ($2.4 million U.S. dollars). The five stores are located in the cities of Edmonton and Calgary in the province of Alberta. This acquisition marks the commencement of our business operations in Canada.

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Results of Operations

The following table sets forth, for the periods indicated, historical Consolidated Statements of Earnings data as a percentage of total store and franchise revenues.

	Year Ended December 31,			Year Ended December 31,		
	2003	2002	2001	2003	2002	2001
	(Company-owned stores only)			(Franchise operations only)		
Revenues						
Rentals and fees	91.8%	93.6%	94.4%	—%	—%	—%
Merchandise Sales	8.0	6.2	5.4	88.5	89.9	90.1
Other/ Royalty income and fees	0.2	0.2	0.2	11.5	10.1	9.9
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Expenses						
Direct store expenses						
Depreciation of rental merchandise	19.9%	19.6%	19.6%	—%	—%	—%
Cost of merchandise sold	5.6	4.5	4.1	84.9	85.8	86.2
Salaries and other expenses	54.2	54.8	58.3	—	—	—
	79.7	78.9	82.0	84.9	85.8	86.2
General and administrative expenses	3.1	3.2	3.2	4.1	4.2	4.5
Amortization of intangibles	0.1	0.3	1.7	0.6	0.5	0.6
Class action litigation settlements	—	—	3.0	—	—	—
Total operating expenses	82.9	82.4	89.9	89.6	90.5	91.3
Operating profit	17.1	17.6	10.1	10.4	9.5	8.7
Interest expense/(income)	3.7	3.2	3.4	(1.1)	(1.1)	(1.1)
Earnings before income taxes	13.4%	14.4%	6.7%	11.5%	10.6%	9.8%

Comparison of the Years ended December 31, 2003 and 2002

Store Revenue. Total store revenue increased by $224.5 million, or 11.5%, to $2,177.2 million for 2003 from $1,952.7 million for 2002. The increase in total store revenue was primarily attributable to growth in same store revenues during 2003, an increase in cash sales and the exercise of early purchase options over 2002 and incremental revenues related to new stores and acquisitions, including 295 stores acquired from Rent-Way, Inc. in February 2003.

Same store revenues represent those revenues earned in 1,877 stores that were operated by us for each of the entire years ending December 31, 2003 and 2002. Same store revenues increased by $47.9 million, or 3.0%, to $1,656.4 million for 2003 from $1,608.5 million in 2002. This increase in same store revenues was primarily attributable to an increase in the total revenue earned per customer (approximately $2,220 per customer for 2003 versus approximately $2,130 per customer for 2002). Merchandise sales increased $37.5 million, or 32.5%, to $153.0 million for 2003 from $115.5 million in 2002. The increase in merchandise sales was primarily attributable to an increase in the number of items sold in 2003 (approximately 1,150,000) as compared to the number of items sold in 2002 (approximately 875,000), primarily the result of an increase in the number of customers exercising early purchase options in 2003 over 2002.

Franchise Revenue. Total franchise revenue decreased by $6.4 million, or 11.1%, to $50.9 million for 2003 from $57.3 million in 2002. This decrease was primarily attributable to a decrease in merchandise sales to franchise locations during 2003 resulting from a decrease in the average number of franchised locations open during 2003 as compared to 2002.

Depreciation of Rental Merchandise. Depreciation of rental merchandise increased by $49.3 million, or 12.9%, to $432.7 million for 2003 from $383.4 million for 2002. This increase was primarily attributable to an increase in rental and fee revenue of $170.4 million, or 9.3%, to $1,998.9 million for 2003 from $1,828.5 for 2002. Depreciation of rental merchandise expressed as a percentage of store rentals and fee revenue increased to 21.6% in 2003 from 21.0% in 2002. This slight increase in 2003 is primarily a result of a different pricing strategy implemented during the fourth quarter of 2001, and higher depreciation associated with the Rent-Way inventory acquired in February 2003.

Cost of Merchandise Sold. Cost of merchandise sold increased by $27.7 million, or 32.7%, to $112.3 million for 2003 from $84.6 million in 2002. This increase was a result of an increase in the number of items sold in 2003 as compared to 2002, due to the increase in the exercise of early purchase options in 2003 over 2002, as well as the additional sales of inventory acquired in the Rent-Way acquisition in February 2003. The gross profit percent of merchandise sales decreased slightly to 26.6% for 2003 from 26.7% in 2002.

Salaries and Other Expenses. Salaries and other expenses expressed as a percentage of total store revenue decreased to 54.2% for 2003 from 54.8% for 2002. This decrease was primarily attributable to an increase in store revenues during the year ended December 31, 2003 as compared to 2002, coupled with the realization of our margin enhancement initiatives and reductions in store level costs in 2003 over 2002.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold decreased by $6.0 million, or 12.1%, to $43.2 million for 2003 from $49.2 in 2002. This decrease was primarily attributable to a decrease in merchandise sales to franchise locations during 2003 resulting from a decrease in the average number of franchised locations open during 2003 as compared to 2002.

General and Administrative Expenses. General and administrative expenses expressed as a percent of total revenue decreased slightly to 3.0% in 2003 from 3.2% in 2002. This decrease is primarily attributable to increased revenues from new stores and acquisitions offset by a proportionally smaller increase in home office labor and other overhead expenses for 2003 as compared to 2002.

Amortization of Intangibles. Amortization of intangibles increased by $7.5 million, or 148.0%, to $12.5 million for 2003 from $5.0 million in 2002. This increase was primarily attributable to the acquisition of 295 Rent-Way stores in February 2003.

Operating Profit. Operating profit increased by $19.6 million, or 5.6%, to $370.0 million for 2003 from $350.4 million for 2002. Operating profit as a percentage of total revenue decreased to 16.6% for the year ended December 31, 2003 from 17.4% for the year ended December 31, 2002. This decrease was primarily attributable to the increase in the cost of merchandise sold and depreciation of rental merchandise.

Financing Costs. During 2003, we announced and commenced a program to recapitalize a portion of our financial structure in a series of transactions. Please see Note F in the notes to consolidated financial statements included in this report. In connection with the recapitalization, we recorded $35.3 million in non-recurring financing charges. These charges primarily consisted of senior subordinated note premiums of approximately $18.7 million, senior subordinated note issue costs and loan origination fees written-off of approximately $11.9 million and other bank charges and fees of approximately $4.7 million.

Income Tax Expense. Interest tax expense decreased by $6.9 million, or 6.0%, to $109.3 million for the year ended December 31, 2003 as compared to $116.2 million in 2002. This decrease is primarily attributable to the implementation of a state tax restructuring which lowered our income tax in several states. The restructuring lowered our overall effective tax rate to 37.6% for 2003 as compared to 40.3% for 2002.

Net Earnings. Net earnings increased by $9.3 million, or 5.4%, to $181.5 million for the year ended December 31, 2003 as compared to $172.2 million in 2002. Before the after-tax effect of the $35.3 million non-recurring recapitalization charges recorded in 2003, net earnings increased by $30.0 million, or 18.0%, to $203.2 million for the year ended December 31, 2003 as compared to $172.2 million in 2002. This increase is primarily attributable to growth in total revenues, a decrease in interest expense, a lower effective tax rate and the improvements in salaries and other expenses under our cost control programs offset by an increase in amortization of intangibles.

Preferred Dividends. Dividends on our Series C preferred stock are payable quarterly at an annual rate of 3.75%. Preferred dividends decreased by $10.2 million, or nearly 100% for the year ended December 31, 2003 as compared to December 31, 2002. This decrease is a direct result of the conversion of all but two shares of our outstanding preferred stock in August 2002.

Comparison of the Years ended December 31, 2002 and 2001

Store Revenue. Total store revenue increased by $203.6 million, or 11.6%, to $1,952.7 million for 2002 from $1,749.1 million for 2001. The increase in total store revenue was primarily attributable to growth in same store revenues during 2002 as well as incremental revenues from the opening of 70 stores and the acquisition of 83 stores and accounts from another 126 stores in 2002.

Same store revenues represent those revenues earned in 1,834 stores that were operated by us for each of the entire years ending December 31, 2002 and 2001. Same store revenues increased by $88.9 million, or 6.0%, to $1,570.7 million for 2002 from $1,481.8 million in 2001. This improvement was primarily attributable to an increase in the number of customers served (approximately 401 per day per store as of December 31, 2002 versus approximately 395 per day per store as of December 31, 2001 in same stores open), as well as revenue earned per customer (approximately $2,136 per customer for the year ending December 31, 2002 versus approximately $2,045 per customer for 2001). Merchandise sales increased $20.8 million, or 21.9%, to $115.5 million for 2002 from $94.7 million in 2001. The increase in merchandise sales was primarily attributable to an increase in the number of items sold in 2002 (approximately 875,000) as compared to the number of items sold in 2001 (approximately 761,000), which was primarily the result of an increase in the number of customers exercising early purchase options.

Franchise Revenue. Total franchise revenue decreased by $2.2 million, or 3.6%, to $57.3 million for 2002 from $59.5 million in 2001. This decrease was primarily attributable to a decrease in merchandise sales to franchise locations during 2002 as compared to 2001 resulting from a decrease in the number of franchised locations from 342 at December 31, 2001 to 318 at December 31, 2002.

Depreciation of Rental Merchandise. Depreciation of rental merchandise increased by $40.2 million, or 11.7%, to $383.4 million for 2002 from $343.2 million for 2001. This increase was primarily attributable to an increase in rental and fee revenue of $177.6 million, or 10.7%, to $1,828.5 million for 2002 from $1,650.9 for 2001, as well as $2.4 million of additional depreciation recognized on computers in 2002 relating to our revised depreciation policy on computers. Depreciation of rental merchandise expressed as a percentage of store rentals and fee revenue increased to 21.0% in 2002 from 20.8% in 2001. This slight increase in 2002 was primarily a result of in-store promotions and pricing changes made during the third quarter of 2001, which included a reduction in the rates and terms on certain rental agreements, causing depreciation to be a greater percentage of store rentals and fee revenue on those promotional items rented through 2002.

Cost of Merchandise Sold. Cost of merchandise sold increased by $12.1 million, or 16.7%, to $84.6 million for 2002 from $72.5 million in 2001. This increase was a result of an increase in the number of items sold in 2002, as compared to 2001, resulting from an increase in early purchase options exercised in 2002 as compared to 2001.

Salaries and Other Expenses. Salaries and other expenses expressed as a percentage of total store revenue decreased to 54.8% for 2002 from 58.3% for 2001. This decrease was primarily attributable to an increase in store revenues during the year ended December 31, 2002 as compared to 2001, coupled with the realization of our margin enhancement initiatives and reductions in store level costs in 2002, including our regional pay plan we implemented in 2002.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold decreased by $2.1 million, or 4.0%, to $49.2 million for 2002 from $51.3 in 2001. This decrease was a direct result of a decrease in merchandise sales to franchise locations in 2002 as compared to 2001, offset by a slight increase in gross profit on these sales, to 4.7% in 2002 as compared to 4.6% in 2001.

General and Administrative Expenses. General and administrative expenses expressed as a percent of total revenue increased slightly to 3.2% in 2002 from 3.1% in 2001. This increase was primarily attributable to an increase in home office labor and other overhead expenses for 2002 as compared to 2001.

Amortization of Intangibles. Amortization of intangibles decreased by $25.2 million, or 83.3%, to $5.0 million for 2002 from $30.2 million in 2001. This decrease was directly attributable to the implementation of SFAS 142, which requires that goodwill and other intangibles with indefinite lives no longer be amortized.

Operating Profit. Operating profit increased by $165.8 million, or 89.9%, to $350.4 million for 2002 from $184.6 million for 2001. Excluding the pre-tax effect of the class action litigation settlements of $16.0 million recorded in the third quarter of 2001 and $36.0 million recorded in the fourth quarter of 2001, operating profit increased by $113.9 million, or 48.1%, for the year ended December 31, 2002 from $236.6 million for the year ended December 31, 2001. Operating profit as a percentage of total revenue increased to 17.4% for the year ended December 31, 2002 from 13.1% for the year ended December 31, 2001 before the pre-tax class action litigation settlement charges of $52.0 million. This increase was primarily attributable to an increase in store revenues during the year ended December 31, 2002 as compared to 2001, coupled with the realization of our margin enhancement initiatives, reduction of store level costs and the reduction of intangible amortization expense as discussed above. After adjusting reported results for the year ended December 31, 2001 to exclude the effects of goodwill amortization and the non-recurring legal charges, operating profit increased by $85.9 million, or 32.5% on a comparable basis.

Net Earnings. Net earnings were $172.2 million for the year ended December 31, 2002 and $66.2 million for the year ended December 31, 2001. Before the after-tax effect of the $52.0 million class action litigation settlement charges recorded in 2001, net earnings increased by $74.7 million, or 76.6%, for the year ended December 31, 2002, from $97.5 million for the year ended December 31, 2001. This increase was primarily attributable to growth in operating profit as discussed above. After adjusting reported results for the year ended December 31, 2001 to exclude the effects of goodwill amortization and the non-recurring legal charges, net earnings increased by $52.7 million, or 43.1% on a comparable basis.

Preferred Dividends. For the years ended December 31, 2002 and December 31, 2001, dividends on our Series A preferred stock were payable quarterly at an annual rate of 3.75%. We account for shares of preferred stock distributed as dividends in-kind at the greater of the stated value or the value of the common stock obtainable upon conversion on the payment date. Preferred dividends decreased by $5.2 million, or 33.7%, to $10.2 million for the year ended December 31, 2002 as compared to $15.4 million in 2001. This decrease was a direct result of the conversion of 97,197 shares of preferred stock into 3,500,000 shares (on a pre-split basis) of our common stock in May 2002 and the conversion in August 2002 of all but two shares of our outstanding Series A preferred stock into approximately 7,281,548 shares (on a pre-split basis) of our common stock, resulting in less preferred shares outstanding in 2002, following the conversions, as compared to 2001.

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Quarterly Results

The following table contains certain unaudited historical financial information for the quarters indicated. All prices and amounts have been adjusted to reflect the 5-for-2 split of our common stock effected in August 2003.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands, except per share data)			
Year ended December 31, 2003				
Revenues	$566,406	$553,260	$549,825	$558,659
Operating profit	96,291	97,238	87,502	88,991
Net earnings	50,959	35,300	43,738	51,499
Basic earnings per common share	$ 0.58	$ 0.40	$ 0.54	$ 0.64
Diluted earnings per common share	$ 0.57	$ 0.39	$ 0.52	$ 0.62
Year ended December 31, 2002				
Revenues	$498,610	$494,660	$494,561	$522,213
Operating profit	88,296	88,240	84,087	89,826
Net earnings	43,563	41,943	41,449	45,218
Basic earnings per common share	$ 0.63	$ 0.59	$ 0.50	$ 0.52
Diluted earnings per common share	$ 0.48	$ 0.46	$ 0.46	$ 0.50
Year ended December 31, 2001(1)				
Revenues	$439,702	$442,759	$447,074	$478,993
Operating profit	62,485	66,640	32,372	23,089
Net earnings	24,998	27,545	9,974	3,700
Basic earnings per common share	$ 0.33	$ 0.35	$ 0.11	$ 0.00
Diluted earnings per common share	$ 0.28	$ 0.30	$ 0.10	$ 0.04

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(As a percentage of revenues)			
Year ended December 31, 2003				
Revenues	100.0%	100.0%	100.0%	100.0%
Operating profit	17.0	17.6	15.9	15.9
Net earnings	9.0	6.4	8.0	9.2
Year ended December 31, 2002				
Revenues	100.0%	100.0%	100.0%	100.0%
Operating profit	17.7	17.8	17.0	17.2
Net earnings	8.7	8.5	8.4	8.7
Year ended December 31, 2001(1)				
Revenues	100.0%	100.0%	100.0%	100.0%
Operating profit	14.2	15.1	7.2	4.8
Net earnings	5.7	6.2	2.2	0.8

(1) Includes the effects of a pre-tax legal settlement of $16.0 million in the third quarter and $36 million in the fourth quarter of 2001 associated with the settlement of a class action lawsuit in the states of Missouri, Illinois, and Tennessee.

Liquidity and Capital Resources

Cash provided by operating activities increased by $47.9 million to $342.4 million in 2003 from $294.5 million in 2002. This increase primarily resulted from increases in our accruals, prepaid expenses as well as the non-recurring finance charges in 2003, offset by increased inventory purchases and a decrease in deferred income taxes in 2003 as compared to 2002.

Cash used in investing activities increased by $84.6 million to $181.3 million in 2003 from $96.7 million in 2002. This increase is primarily attributable to the acquisition of 295 stores from Rent-Way in February 2003.

Cash used in financing activities decreased by $117.1 million to $102.9 million in 2003 from $220.0 million in 2002. This decrease is a result of the recapitalization we undertook in May 2003, which included $300.0 million received from our issuance of senior subordinated notes, bearing interest at 7 1/2%, pursuant to an indenture dated May 6, 2003, as well as the new $400.0 million term loan under our senior credit facilities entered into in May 2003, offset by our repurchase of $291.0 million of our 11% notes, the repayment of $251.5 million on our senior credit facilities and repurchase of $273.2 million of our common stock.

Liquidity Requirements. Our primary liquidity requirements are for debt service, rental merchandise purchases, capital expenditures, and our store expansion program. Our primary sources of liquidity have been cash provided by operations, borrowings and sales of debt and equity securities. In the future, we may incur additional debt, or may issue debt or equity securities to finance our operating and growth strategies. The availability and attractiveness of any outside sources of financing will depend on a number of factors, some of which relate to our financial condition and performance, and some of which are beyond our control, such as prevailing interest rates and general economic conditions. There can be no assurance that additional financing will be available, or if available, that it will be on terms we find acceptable.

We believe that the cash flow generated from operations, together with amounts available under our senior credit facilities, will be sufficient to fund our debt service requirements, rental merchandise purchases, capital expenditures, and our store expansion programs during 2004. Our revolving credit facilities provide us with revolving loans in an aggregate principal amount not exceeding $130.0 million, of which $100.2 million was available at March 8, 2004. At March 8, 2004, we had $190.5 million in cash. While our operating cash flow has been strong and we expect this strength to continue, our liquidity could be negatively impacted if we do not remain as profitable as we expect.

Deferred Taxes. On March 9, 2002, President Bush signed into law the Job Creation and Worker Assistance Act of 2002, which provides for accelerated tax depreciation deductions for qualifying assets placed in service between September 11, 2001 and September 10, 2004. Under these provisions, 30 percent of the basis of qualifying property is deductible in the year the property is placed in service, with the remaining 70 percent of the basis depreciated under the normal tax depreciation rules. For assets placed in service between May 6, 2003 and December 31, 2004, the Jobs and Growth Tax Relief Reconciliation Act of 2003 increased the percent of the basis of qualifying property deductible in the year the property is placed in service from 30% to 50%. Accordingly, our cash flow will benefit from having a lower current cash tax obligation, which in turn will provide additional cash flows from operations until the deferred tax liabilities begin to reverse. We estimate that our operating cash flow will have increased by approximately $100.6 million through 2004 before the deferred tax liabilities begin to reverse over a three year period beginning in 2005.

Rental Merchandise Purchases. We purchased $612.3 million, $494.9 million and $526.9 million of rental merchandise during the years 2003, 2002 and 2001, respectively.

Capital Expenditures. We make capital expenditures in order to maintain our existing operations as well as for new capital assets in new and acquired stores. We spent $56.0 million, $37.6 million and $57.5 million on capital expenditures in the years 2003, 2002 and 2001, respectively, and expect to spend approximately $40.0 million in 2004.

Acquisitions and New Store Openings. During 2003, we continued our strategy of increasing our store base through opening new stores, as well as through opportunistic acquisitions. We spent approximately

$126.1 million acquiring stores and accounts for the year ended December 31, 2003. It is our intention to increase the number of stores we operate by an average of approximately 5-10% per year over the next several years.

In February 2003, we completed the acquisition of substantially all of the assets of 295 rent-to-own stores from Rent-Way, Inc. for an aggregate purchase price of $100.4 million in cash. Of the aggregate purchase price, we held back $10.0 million to pay for various indemnified liabilities and expenses, if any, of which $5.0 million has been repaid and up to $5.0 million we expect will be repaid in August of 2004. We funded the acquisition entirely from cash on hand. Of the 295 stores acquired, 176 stores were merged with our existing store locations.

On February 4, 2004, we announced that we entered into a definitive agreement to acquire Rainbow Rentals, Inc., a rent-to-own operator, for $16.00 in cash per share of Rainbow common stock. The acquisition consists of 124 rent-to-own stores in 15 states. The agreement also provides that each holder of options of Rainbow will receive an amount equal to the difference between $16.00 and the exercise price of the option. We intend to fund the acquisition primarily with cash on hand. The acquisition, which is expected to be completed in the second quarter of 2004, is conditioned upon customary closing conditions for a transaction of this nature, including the receipt of requisite regulatory approval and approval of Rainbow’s shareholders.

The profitability of our stores tends to grow at a slower rate approximately five years from the time we open or acquire them. As a result, in order for us to show improvements in our profitability, it is important for us to continue to open stores in new locations or acquire underperforming stores on favorable terms. There can be no assurance we will be able to acquire or open new stores at the rates we expect, or at all. We cannot assure you the stores we do acquire or open will be profitable at the same levels that our current stores are, or at all.

Borrowings. The table below shows the scheduled maturity dates of our senior debt outstanding at December 31, 2002.

Year Ending December 31,	(In thousands)
2004	$ 4,000
2005	4,000
2006	4,000
2007	4,000
2008	192,000
Thereafter	190,000
	$398,000

Senior Credit Facilities. On May 28, 2003, we entered into a new senior credit facility provided by a syndicate of banks and other financial institutions led by Lehman Commercial Paper, Inc., as administrative agent. At December 31, 2003, we had a total of $398.0 million outstanding under our senior credit facilities related to our term loans and $90.2 million of availability under the revolving credit line portion of our senior credit facilities.

The senior credit facility also includes an $80.0 million additional term loan facility. This facility is currently held to support our outstanding letters of credit. In the event that a letter of credit is drawn upon, we have the right to either repay the additional term loan facility lenders the amount withdrawn or request a loan in that amount. Interest on any requested additional term loan facility loan accrues at an adjusted prime rate plus 1.25% or, at our option, at the Eurodollar base rate plus 2.25%, with the entire amount of the additional term loan facility due on May 28, 2009.

Borrowings under our senior credit facilities bear interest at varying rates equal to 2.25% over the Eurodollar rate, which was 1.12% at December 31, 2003. We also have a prime rate option under the facilities, but have not exercised it to date. We have not entered into any interest rate protection agreements with respect to term loans under our senior credit facilities.

Our senior credit facilities are secured by a security interest in substantially all of our tangible and intangible assets, including intellectual property. Our senior credit facilities are also secured by a pledge of the capital stock of our U.S. subsidiaries, and a portion of the capital stock of our international subsidiaries.

Our senior credit facilities contain covenants, including without limitation, covenants that generally limit our ability to:

• incur additional debt (including subordinated debt) in excess of $35 million at any one time outstanding;

• repurchase our capital stock and 7 1/2% notes;

• incur liens or other encumbrances;

• merge, consolidate or sell substantially all our property or business;

• sell assets, other than inventory in the ordinary course of business;

• make investments or acquisitions unless we meet financial tests and other requirements;

• make capital expenditures; or

• enter into a new line of business.

Our senior credit facilities require us to comply with several financial covenants, including a maximum consolidated leverage ratio, a minimum consolidated interest coverage ratio and a minimum fixed charge coverage ratio. At December 31, 2003, the maximum consolidated leverage ratio was 2.75:1, the minimum consolidated interest coverage ratio was 3.50:1, and the minimum fixed charge coverage ratio was 1.50:1. On that date, our actual ratios were 1.52:1, 6.42:1 and 2.52:1, respectively. In addition, we are generally required to use 25% of the net proceeds from equity offerings to repay our term loans.

Events of default under our senior credit facilities include customary events, such as a cross-acceleration provision in the event that we default on other debt. In addition, an event of default under the senior credit facilities would occur if there is a change of control. This is defined to include the case where a third party becomes the beneficial owner of 35% or more of our voting stock or certain changes in our Board of Directors occurs.

7 1/2% Senior Subordinated Notes. On May 6, 2003, we issued $300.0 million in senior subordinated notes due 2010, bearing interest at 7 1/2% (“7 1/2% Notes”), pursuant to an indenture dated May 6, 2003, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York, as trustee. The proceeds of this offering were used to fund the repurchase and redemption of our then outstanding 11% senior subordinated notes.

The 2003 indenture contains covenants that limit Rent-A-Center’s ability to:

• incur additional debt;

• sell assets or our subsidiaries;

• grant liens to third parties;

• pay dividends or repurchase stock; and

• engage in a merger or sell substantially all of its assets.

Events of default under the 2003 indenture include customary events, such as a cross-acceleration provision in the event that we default in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding $50.0 million.

The 7 1/2% Notes may be redeemed on or after May 1, 2006, at our option, in whole or in part, at a premium declining from 103.75%. The 7 1/2% Notes also require that upon the occurrence of a change of control (as defined in the 2003 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase. This would trigger an event of default under our senior credit facilities.

Store Leases. We lease space for all of our stores as well as our corporate and regional offices under operating leases expiring at various times through 2011.

ColorTyme Guarantee. ColorTyme is a party to an agreement with Wells Fargo Foothill, Inc., who provides $50.0 million in aggregate financing to qualifying franchisees of ColorTyme generally of up to five times their average monthly revenues. Under the Wells Fargo agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Wells Fargo can assign the loans and the collateral securing such loans to ColorTyme, with ColorTyme then succeeding to the rights of Wells Fargo under the debt agreements, including the right to foreclose on the collateral. An additional $15.0 million of financing is provided by Texas Capital Bank, National Association under an agreement similar to the Wells Fargo financing. Rent-A-Center East guarantees the obligations of ColorTyme under each of these agreements, not considering the effects of any amounts that could be recovered under collateralization provisions, up to a maximum amount of $65.0 million, of which $29.0 million was outstanding as of December 31, 2003. Mark E. Speese, Rent-A-Center's Chairman of the Board and Chief Executive Officer, is a passive investor in Texas Capital Bank, owning less than 1% of its outstanding equity.

Litigation. In 1998, we recorded an accrual of approximately $125.0 million for estimated probable losses on litigation assumed in connection with the Thorn Americas acquisition. As of December 31, 2003, we have paid approximately $124.5 million of this accrual in settlement of most of these matters and legal fees. These settlements were funded primarily from amounts available under our senior credit facilities, including the revolving credit facility and the multidraw facility, as well as from cash flow from operations.

Additional settlements or judgments against us on our existing litigation could affect our liquidity. Please refer to Note L of our consolidated financial statements included herein.

Stock Split. On July 28, 2003, we announced that our Board of Directors had approved a 5 for 2 stock split of our common stock to be paid in the form of a stock dividend. Each common stockholder of record on August 15, 2003 received 1.5 additional shares of common stock for each share of common stock held on that date. No fractional shares were issued in connection with the stock dividend. Each stockholder who would otherwise have received a fractional share received an additional share of common stock. The distribution date for the stock dividend was August 29, 2003. The effect of the stock split has been recognized retroactively in all share data in the consolidated financial statements and management's discussion and analysis, unless otherwise noted.

Sales of Equity Securities. During 1998, we issued 260,000 shares of our preferred stock at $1,000 per share, resulting in aggregate proceeds of $260.0 million. Dividends on our preferred stock accrue on a quarterly basis at the rate of $37.50 per annum. Prior to the conversion of all but two shares of our preferred stock in August 2002, we paid these dividends in additional shares of preferred stock because of restrictive provisions in our senior credit facilities. We have the ability to pay the dividends in cash and may do so under our senior credit facilities so long as we are not in default.

In connection with the repurchase of 774,547 shares of our common stock (on a pre-split basis) from Apollo in July 2003, Apollo exchanged their shares of Series A preferred stock for shares of Series C preferred stock. As a result, no shares of Series A preferred stock remain outstanding. The terms of the Series A preferred stock and Series C preferred stock are substantially similar, except the Series C preferred stock does not have the right to directly elect any members of our Board of Directors.

Contractual Cash Commitments. The table below summarizes debt, lease and other minimum cash obligations outstanding as of December 31, 2003:

Contractual Cash Obligations(1)	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(In thousands)		
Senior Credit Facilities (including current portion)	$ 398,000	$ 4,000	$ 8,000	$196,000	$190,000
7 1/2% Senior Subordinated Notes (1)	446,250	22,500	45,000	45,000	333,750
Operating Leases	356,598	121,038	174,543	59,041	1,976
Total	$1,200,848	$147,538	$227,543	$300,041	$525,726

(1) Includes interest payments of $11.25 million on each of May 1 and November 1 of each year after 2003.

Repurchases of Outstanding Securities. In connection with the retirement of J. Ernest Talley, our former Chairman of the Board and Chief Executive Officer, we entered into an agreement to repurchase $25.0 million worth of shares of our common stock beneficially held by Mr. Talley at a purchase price equal to the average closing price of our common stock over the 10 trading days beginning October 9, 2001, subject to a maximum of $27.00 per share (on a pre-split basis) and a minimum of $20.00 per share (on a pre-split basis). Under this formula, the purchase price for the repurchase was calculated at $20.258 per share (on a pre-split basis). Accordingly, on October 23, 2001 we repurchased 493,632 shares of our common stock (on a pre-split basis) beneficially held by Mr. Talley at $20.258 per share (on a pre-split basis) for a total purchase price of $10.0 million, and on November 30, 2001, we repurchased an additional 740,448 shares of our common stock (on a pre-split basis) beneficially held by Mr. Talley at $20.258 (on a pre-split basis) per share, for a total purchase price of an additional $15.0 million. On January 25, 2002, we exercised the option to repurchase all of the remaining 1,714,086 shares of common stock (on a pre-split basis) beneficially held by Mr. Talley at $20.258 per share (on a pre-split basis) for a total purchase price of $34.7 million. We repurchased those remaining shares on January 30, 2002.

On April 25, 2003, we announced that we entered into an agreement with Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P. which provided for the repurchase of a number of shares of our common stock sufficient to reduce Apollo's aggregate record ownership to 19.00% after consummation of our planned tender offer at the price per share paid in the tender offer. On April 28, 2003, we commenced a tender offer to purchase up to 2.2 million shares of our common stock (on a pre-split basis) pursuant to a modified "Dutch Auction." On June 25, 2003, we closed the tender offer and purchased 1,769,960 shares of our common stock (on a pre-split basis) at $73 per share (on a pre-split basis) for approximately $129.2 million. On July 11, 2003, we closed the Apollo transaction and purchased 774,547 shares of our common stock (on a pre-split basis) at $73 per share (on a pre-split basis) for approximately $56.5 million. As contemplated by the Apollo agreement, Apollo also exchanged their shares of Series A preferred stock for shares of Series C preferred stock. As a result, no shares of Series A preferred stock remain outstanding. The terms of the Series A preferred stock and Series C preferred stock are substantially similar, except the Series C preferred stock does not have the right to directly elect any members of our Board of Directors.

In April 2000, we announced that our Board of Directors had authorized a program to repurchase, from time to time, in the open market and in privately negotiated transactions up to an aggregate of $25.0 million of our common stock. In October 2002, our Board of Directors increased the amount of repurchases authorized under our common stock repurchase program from $25.0 million to $50.0 million. In March 2003, our Board of Directors again increased such amount from $50.0 million to $100.0 million. On August 1, 2003, we agreed to purchase an aggregate of 440,000 shares of our common stock (on a pre-split basis) at $73 per share (on a pre-split basis), 200,000 of which were repurchased from Mark E. Speese, our Chairman of the Board and Chief Executive Officer, 200,000 of which were repurchased from Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P., and 40,000 of which were repurchased from Mitchell E. Fadel, our President and Chief Operating Officer. On October 24, 2003 we announced our Board of Directors had rescinded our old common stock repurchase program and authorized a new $100 million common stock repurchase program. Through that date, we repurchased a total of 1.6 million shares of our common stock (on a pre-split basis) for an aggregate of $91.5 million under our old common stock repurchase program. Under our new common stock repurchase program, we have the ability to repurchase up to $100 million in aggregate purchase price of our common stock, from time to time, in open market and privately negotiated transactions. As of December 31, 2003, we had purchased a total of 835,600 shares of our common stock for an aggregate of $26.8 million under our new common stock repurchase program.

Economic Conditions. Although our performance has not suffered in previous economic downturns, we cannot assure you that demand for our products, particularly in higher price ranges, will not significantly decrease in the event of a prolonged recession.

Seasonality. Our revenue mix is moderately seasonal, with the first quarter of each fiscal year generally providing higher merchandise sales than any other quarter during a fiscal year, primarily related to the exercise of early purchase options due to our customers receiving federal income tax refunds. Generally, our customers will more frequently exercise their early purchase option on their existing rental purchase agreements or purchase pre-leased merchandise off the showroom floor during the first quarter of each fiscal year. We expect this trend to continue in future periods. Furthermore, we tend to experience slower growth in the number of rental purchase agreements on rent in the third quarter of each fiscal year when compared to other quarters throughout the year. As a result, we would expect revenues for the third quarter of each fiscal year to remain relatively flat with the prior quarter. We expect this trend to continue in future periods unless we add significantly to our store base during the third quarter of future fiscal years as a result of new store openings or opportunistic acquisitions.

Effect of New Accounting Pronouncements

In December 2003, the FASB issued a revision to Interpretation 46 (FIN 46R), to clarify some of the provisions of FASB Interpretation No. 46, *"Consolidation of Variable Interest Entities."* Variable interest entities within the scope of FIN 46R will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. Application of FIN 46R is required in financial statements of public entities that have interests in structures that are commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of variable interest entities is required in financial statements for periods ending after March 15, 2004. We have performed an evaluation and determined, based on our evaluation, that we have no special-purpose entities and that the adoption of the provisions of FIN 46R will not have a material impact on our financial condition or results of operations.

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity."* SFAS No. 150 revised the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new statement requires that those instruments be classified as liabilities in statements of financial condition. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is generally effective at the beginning of the first interim period beginning after June 15, 2003. We adopted this standard during the third quarter of 2003 and reclassified $2,000 of redeemable convertible voting preferred stock to liabilities.

Item 7A. ***Quantitative and Qualitative Disclosure About Market Risk***

Interest Rate Sensitivity

As of December 31, 2003, we had $300.0 million in subordinated notes outstanding at a fixed interest rate of 7 1/2%, and $398.0 million in term loans outstanding at interest rates indexed to the Eurodollar rate. The fair value of the subordinated notes is estimated based on discounted cash flow analysis using interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of the 7 1/2% subordinated notes at December 31, 2003 was $316.5 million, which is $16.5 million above their carrying value. Unlike the subordinated notes, the $398.0 million in term loans have variable interest rates indexed to current Eurodollar rates. As of December 31, 2003, we have not entered into any interest rate swap agreements with respect to term loans under our senior credit facilities.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest rates. Our primary market risk exposure is fluctuations in interest rates. Monitoring and managing this risk is a continual process carried out by the Board of Directors and senior management. We manage our market risk based on an ongoing assessment of trends in interest rates and economic developments, giving consideration to possible effects on both total return and reported earnings.

Interest Rate Risk

We hold long-term debt with variable interest rates indexed to prime or Eurodollar rate that exposes us to the risk of increased interest costs if interest rates rise.

Item 8. ***Financial Statements and Supplementary Data***

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders

Rent-A-Center, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Rent-A-Center, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rent-A-Center, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note E to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") on January 1, 2002.

GRANT THORNTON LLP

Dallas, Texas

March 31, 2004

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RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31,		
	2003	2002	2001
	(In thousands, except per share data)		
Revenues			
Store			
Rentals and fees	$1,998,952	$1,828,534	$1,650,851
Merchandise sales	152,984	115,478	94,733
Installment sales	22,203	6,137	—
Other	3,083	2,589	3,476
Franchise			
Merchandise sales	45,057	51,514	53,584
Royalty income and fees	5,871	5,792	5,884
	2,228,150	2,010,044	1,808,528
Operating expenses			
Direct store expenses			
Depreciation of rental merchandise	432,696	383,400	343,197
Cost of merchandise sold	112,283	84,628	72,539
Cost of installment sales	10,639	3,776	—
Salaries and other expenses	1,180,115	1,070,265	1,019,402
Franchise cost of merchandise sold	43,248	49,185	51,251
	1,778,981	1,591,254	1,486,389
General and administrative expenses	66,635	63,296	55,359
Amortization of intangibles	12,512	5,045	30,194
Class action litigation settlements	—	—	52,000
Total operating expenses	1,858,128	1,659,595	1,623,942
Operating profit	370,022	350,449	184,586
Non-recurring financing costs	35,260	—	—
Interest expense	48,577	64,682	60,874
Interest income	(4,645)	(2,676)	(1,094)
Earnings before income taxes	290,830	288,443	124,806
Income tax expense	109,334	116,270	58,589
NET EARNINGS	181,496	172,173	66,217
Preferred dividends	—	10,212	15,408
Net earnings allocable to common stockholders	$ 181,496	$ 161,961	$ 50,809
Basic earnings per common share	$ 2.16	$ 2.20	$ 0.79
Diluted earnings per common share	$ 2.08	$ 1.89	$ 0.71

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2003	2002
	(In thousands, except per share data)	
ASSETS		
Cash and cash equivalents	$ 143,941	$ 85,723
Accounts receivable, net	14,949	5,922
Prepaid expenses and other assets	70,702	53,482
Rental merchandise, net		
On rent	542,909	510,184
Held for rent	139,458	121,540
Property assets, net	121,909	105,949
Goodwill, net	788,059	736,395
Other intangible assets, net	9,375	7,457
	$1,831,302	$1,626,652
LIABILITIES		
Accounts payable — trade	$ 72,708	$ 54,061
Accrued liabilities	132,844	122,717
Deferred income taxes	132,918	86,142
Senior debt	398,000	249,500
Subordinated notes payable, net of discount	300,000	271,830
Redeemable convertible voting preferred stock	2	2
	1,036,472	784,252
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value; 125,000,000 shares authorized; 101,148,417 and 98,845,105 shares issued in 2003 and 2002, respectively	1,012	395
Additional paid-in capital	572,628	532,675
Accumulated comprehensive loss	—	(3,726)
Retained earnings	609,930	428,621
Treasury stock, 21,020,041 and 11,498,173 shares at cost in 2003 and 2002, respectively	(388,740)	(115,565)
	794,830	842,400
	$1,831,302	$1,626,652

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the three years ended December 31, 2003

	Common Stock		Additional			Accumulated Comprehensive	
	Shares	Amount	Paid-In Capital	Retained Earnings	Treasury Stock	Income (Loss)	Total
				(In thousands)			
Balance at January 1, 2001	64,250	$ 257	$115,607	$218,507	$ (25,000)	$ —	$ 309,371
Net earnings	—	—	—	66,217	—	—	66,217
Other comprehensive income (loss):							
Cumulative effect of adoption of SFAS 133	—	—	—	—	—	1,378	1,378
Losses on interest rate swaps, net of tax of $6,184	—	—	—	—	—	(10,090)	(10,090)
Reclassification adjustment for losses included in net earnings, net of tax of $1,466	—	—	—	—	—	2,393	2,393
Other comprehensive loss	—	—	—	—	—	(6,319)	(6,319)
Comprehensive income							59,898
Purchase of treasury stock (3,085 shares)	—	—	—	—	(25,000)	—	(25,000)
Issuance of common stock in public offering, net of issuance costs of $3,253	2,875	12	45,610	—	—	—	45,622
Preferred dividends	—	—	4,064	(14,742)	—	—	(10,678)
Issuance of stock options for services	—	—	111	—	—	—	111
Exercise of stock options	2,190	8	20,309	—	—	—	20,317
Tax benefits related to exercise of stock options	—	—	5,737	—	—	—	5,737
Balance at December 31, 2001	69,315	277	191,438	269,982	(50,000)	(6,319)	405,378
Net earnings	—	—	—	172,173	—	—	172,173
Other comprehensive income:							
Losses on interest rate swaps, net of tax of $1,994	—	—	—	—	—	(3,253)	(3,253)
Reclassification adjustment for losses included in net earnings, net of tax of $3,583	—	—	—	—	—	5,846	5,846
Other comprehensive income	—	—	—	—	—	2,593	2,593
Comprehensive income							174,766
Purchase of treasury stock (5,938 shares)	—	—	—	—	(65,565)	—	(65,565)
Preferred dividends	—	—	5,383	(13,534)	—	—	(8,151)
Conversion of preferred stock to common (26,955 shares)	26,955	108	299,951	—	—	—	300,059
Issuance of stock options for services	—	—	112	—	—	—	112
Exercise of stock options	2,575	10	26,782	—	—	—	26,792
Tax benefits related to exercise of stock options	—	—	9,009	—	—	—	9,009
Balance at December 31, 2002	98,845	395	532,675	428,621	(115,565)	(3,726)	842,400
Net earnings	—	—	—	181,496	—	—	181,496
Other comprehensive income:							
Gains on interest rate swaps, net of tax of $3,986	—	—	—	—	—	6,504	6,504
Reclassification adjustment for gains included in net earnings, net of tax of $1,702	—	—	—	—	—	(2,778)	(2,778)
Other comprehensive income						3,726	3,726
Comprehensive income							185,222
Purchase of treasury stock (9,528 shares)	—	—	—	—	(273,175)	—	(273,175)
Issuance of stock options for services	—	—	28	—	—	—	28
Effect of 5-for-2 stock split	—	605	(451)	(154)	—	—	—
Exercise of stock options	2,303	12	29,771	—	—	—	29,783
Tax benefits related to exercise of stock options	—	—	10,605	—	—	—	10,605
Other	—	—	—	(33)	—	—	(33)
Balance at December 31, 2003	101,148	$1,012	$572,628	$609,930	$(388,740)	$ —	$ 794,830

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Cash flows from operating activities			
Net earnings	$ 181,496	$ 172,173	$ 66,217
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation of rental merchandise	432,696	383,400	343,197
Depreciation of property assets	43,384	38,359	37,910
Amortization of intangibles	12,512	5,045	30,194
Amortization of financing fees	844	5,944	2,760
Deferred income taxes	46,776	94,914	23,856
Non-recurring financing fees	23,329	—	—
Changes in operating assets and liabilities, net of effects of acquisitions			
Rental merchandise	(424,397)	(342,954)	(391,932)
Accounts receivable	(9,027)	(4,258)	1,590
Prepaid expenses and other assets	(8,752)	(26,573)	(12,104)
Accounts payable — trade	18,647	4,131	(5,371)
Accrued liabilities and other	24,904	(35,691)	79,413
Net cash provided by operating activities	342,412	294,490	175,730
Cash flows from investing activities			
Purchase of property assets	(55,987)	(37,596)	(57,532)
Proceeds from sale of property assets	809	398	706
Acquisitions of businesses	(126,119)	(59,504)	(49,835)
Net cash used in investing activities	(181,297)	(96,702)	(106,661)
Cash flows from financing activities			
Purchase of treasury stock	(273,175)	(65,565)	(25,000)
Proceeds from issuance of common stock, net of issuance costs	—	—	45,622
Exercise of stock options	29,783	26,792	20,317
Issuance of subordinated notes	300,000	—	—
Payment of refinancing fees	(17,049)	—	—
Proceeds from debt	400,000	—	99,506
Repurchase of senior subordinated notes, including premium	(290,956)	(2,750)	—
Repayments of debt	(251,500)	(178,500)	(138,051)
Net cash provided by (used in) financing activities	(102,897)	(220,023)	2,394
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,218	(22,235)	71,463
Cash and cash equivalents at beginning of year	85,723	107,958	36,495
Cash and cash equivalents at end of year	$ 143,941	$ 85,723	$ 107,958
Supplemental cash flow information			
Cash paid during the year for:			
Interest	$ 56,401	$ 53,307	$ 56,306
Income taxes	$ 68,805	$ 31,868	$ 21,526

During 2002 and 2001, the Company paid preferred dividends of approximately $8.2 million and $10.7 million by issuing 8,151 and 10,678 shares of preferred stock, respectively. During 2003, the Company paid all preferred dividends in cash, totaling approximately $128.

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A — Summary of Accounting Policies and Nature of Operations

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Principles of Consolidation and Nature of Operations

These financial statements include the accounts of Rent-A-Center, Inc. ("Rent-A-Center") and its direct and indirect wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated. At December 31, 2003, the Company operated 2,648 company-owned stores nationwide and in Puerto Rico, including 22 stores in Wisconsin operated by a subsidiary, Get It Now, LLC, under the name "Get It Now." The Company's primary operating segment consists of leasing household durable goods to customers on a rent-to-own basis. Get It Now offers merchandise on an installment sales basis in Wisconsin.

ColorTyme, Inc. ("ColorTyme"), an indirect wholly-owned subsidiary of Rent-A-Center, is a nationwide franchisor of 329 franchised rent-to-own stores operating in 40 states. These rent-to-own stores offer high quality durable products such as home electronics, appliances, computers, and furniture and accessories. ColorTyme's primary source of revenues is the sale of rental merchandise to its franchisees, who, in turn, offer the merchandise to the general public for rent or purchase under a rent-to-own program. The balance of ColorTyme's revenue is generated primarily from royalties based on franchisees' monthly gross revenues.

Effective as of December 31, 2002, the Company completed a tax-free internal reorganization of its corporate structure. The reorganization was effected through an inversion merger whereby Rent-A-Center, Inc. became a wholly-owned subsidiary of Rent-A-Center Holdings, Inc., a newly formed Delaware holding company. Upon the merger, Rent-A-Center, Inc. changed its name to Rent-A-Center East, Inc., ("Rent-A-Center East") and Rent-A-Center Holdings, Inc. adopted the name Rent-A-Center, Inc.

Stock Split

On July 28, 2003, the Company announced that its Board of Directors had approved a 5 for 2 stock split on its common stock to be paid in the form of a stock dividend. Each common stockholder of record on August 15, 2003 received 1.5 additional shares of common stock for each share of common stock held on that date. No fractional shares were issued in connection with the stock dividend. Each stockholder who would otherwise have received a fractional share received an additional share of common stock. The distribution date for the stock dividend was August 29, 2003. The effect of the stock split has been recognized retroactively in all share data in the consolidated financial statements and management's discussion and analysis, unless otherwise noted.

Rental Merchandise

Rental merchandise is carried at cost, net of accumulated depreciation. Depreciation for all merchandise is provided using the income forecasting method, which is intended to match as closely as practicable the recognition of depreciation expense with the consumption of the rental merchandise, and assumes no salvage value. The consumption of rental merchandise occurs during periods of rental and directly coincides with the receipt of rental revenue over the rental-purchase agreement period, generally 7 to 30 months. Under the income forecasting method, merchandise held for rent is not depreciated and merchandise on rent is depreciated in the proportion of rents received to total rents provided in the rental contract, which is an activity based method similar to the units of production method. On July 1, 2002, the Company began accelerating the depreciation on computers that are 21 months old or older and which have become idle using the straight-line method for a period of at least six months. As of December 31, 2002, the Company had recognized an additional $2.4 million in depreciation expense due to this accelerated method on computers. The purpose for this change is to better reflect the depreciable life of a computer and to encourage the sale of older computers. Though this method will accelerate the depreciation expense on the affected computers, the Company does not expect it to have a material effect on its financial position, results of operations or cash flows in future periods.

Rental merchandise which is damaged and inoperable, or not returned by the customer after becoming delinquent on payments, is expensed when such impairment occurs. Any repairs made to rental merchandise are expensed at the time of the repair.

Cash Equivalents

For purposes of reporting cash flows, cash equivalents include all highly liquid investments with an original maturity of three months or less.

Revenue

Merchandise is rented to customers pursuant to rental-purchase agreements which provide for weekly or monthly rental terms with non-refundable rental payments. Generally, the customer has the right to acquire title either through a purchase option or through payment of all required rentals. Rental revenue and fees are recognized over the rental term. No revenue is accrued because the customer can cancel the rental contract at any time and Rent-A-Center cannot enforce collection for non-payment of rents.

ColorTyme's revenue from the sale of rental merchandise is recognized upon shipment of the merchandise to the franchisee.

Get It Now's revenue from the sale of merchandise through an installment credit sale is recognized at the time of the sale, as is the cost of the merchandise sold, net of a provision for uncollectable accounts.

Receivables and Allowance for Doubtful Accounts

Get It Now sells merchandise through installment sales transactions. The installment note generally consists of the sales price of the merchandise purchased and any additional fees for services the customer has chosen, less the customer's down payment. No interest is accrued and interest income is recognized each time a customer makes a payment, generally on a monthly basis. The Company has established an allowance for doubtful accounts for Get It Now's installment notes and ColorTyme's trade receivables. The Company's policy for determining the allowance is based on historical loss experience generally, as well as the results of management's review and analysis of the payment and collection of the installment notes and trade receivables within the previous quarter. The Company's policy is to charge off installment notes and trade receivables which are 90 days or more past due. Charge-offs are applied as a reduction to the allowance for doubtful accounts and any recoveries of previously charged off balances are applied as an increase to the allowance for doubtful accounts.

Property Assets and Related Depreciation

Furniture, equipment and vehicles are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets (generally five years) by the straight-line method. Leasehold improvements are amortized over the term of the applicable leases by the straight-line method. The Company incurs repair and maintenance expenses on its vehicles and equipment. These amounts are recognized when incurred, unless such repairs significantly extend the life of the asset, in which case the Company amortizes the cost of the repairs for the remaining life of the asset utilizing the straight-line method.

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Intangible Assets and Amortization

Goodwill is the cost in excess of the fair value of net assets of acquired businesses. Effective January 1, 2002, goodwill is no longer amortized, but evaluated at least annually for impairment, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets.* Intangible assets that have finite useful lives will continue to be amortized over their useful lives.

Under SFAS No. 142, the Company was required to test all existing goodwill for impairment as of January 1, 2002. A discounted cash flow approach is used to test goodwill for impairment. There were no impairment charges as a result of the transitional goodwill impairment test in 2002 or the annual impairment test in 2003.

Accounting for Impairment of Long-Lived Assets

The Company evaluates all long-lived assets, including intangible assets, excluding goodwill, and rental merchandise, for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment is recognized when the carrying amounts of such assets cannot be recovered by the undiscounted net cash flows they will generate.

Derivative Instruments and Hedging Activities

Under the Company's new senior credit facility entered into on May 28, 2003, the Company is not currently a party to any swap agreements. Under the Company's previous credit facility, the Company entered into interest-rate swap agreements in order to manage its exposure to fluctuations in interest rates by decreasing the volatility of earnings and cash flows associated with changes in the applicable rates. The interest-rate swaps were derivative instruments related to forecasted transactions and hedged future cash flows. The effective portion of any gains or losses were included in accumulated other comprehensive income (loss) until earnings were affected by the variability of cash flows. Any ineffective portion was recognized into earnings. The cash flows of the interest-rate swaps offset cash flows attributable to fluctuations in the cash flows of the previous floating-rate senior credit facility. If it became probable a forecasted transaction would no longer occur, the interest-rate swaps were carried on the balance sheet at fair value, and gains or losses that were deferred in accumulated other comprehensive income (loss) were recognized immediately into earnings.

Changes in the fair value of the effective cash flow hedges were recorded in accumulated other comprehensive income (loss). The effective portion that had been deferred in accumulated other comprehensive income (loss) was reclassified to earnings when the hedged items impacted earnings.

The Company's adoption of SFAS No. 133 on January 1, 2001 resulted in the recognition of approximately $2.6 million, or $1.4 million after taxes, of derivative assets on the Company's consolidated balance sheet and $1.4 million of hedging gains included in accumulated other comprehensive income as the cumulative effect of a change in accounting principle.

The interest-rate swaps were based on the same index as their respective underlying debt. The interest-rate swaps were effective in achieving offsetting cash flows attributable to the fluctuations in the cash flows of the hedged risk, and no amount was required to be reclassified from accumulated other comprehensive income (loss) into earnings for hedge ineffectiveness during the three years ended December 31, 2003. The interest-rate swap resulted in an increase of interest expense of $4.5 million, $9.4 million and $3.9 million for the years ended December 31, 2003, 2002 and 2001, respectively. The fair value of the interest-rate swaps increased by $2.6 million, net of tax, during the year ended December 31, 2002, and decreased by $6.3 million, net of tax, during the year ended December 31, 2001, which had been recorded in accumulated other comprehensive income. During the years ended December 31, 2002 and 2001, the amount of cash flow loss reclassified to earnings because it became probable that the original forecasted transaction would not occur was not material. In May 2003, the Company extinguished their remaining interest rate swap in connection with their recapitalization program. The accumulated loss in other comprehensive income of approximately $3.7 million was recognized immediately into earnings and is included in the non-recurring charge of $35.3 million on the statement of earnings.

Income Taxes

The Company records deferred taxes for temporary differences between the tax and financial reporting bases of assets and liabilities at the rate expected to be in effect when taxes become payable.

Earnings Per Common Share

Basic earnings per common share are based upon the weighted average number of common shares outstanding during each period presented. Diluted earnings per common share are based upon the weighted average number of common shares outstanding during the period, plus, if dilutive, the assumed exercise of stock options and the assumed conversion of convertible securities at the beginning of the year, or for the period outstanding during the year for current year issuances.

Advertising Costs

Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was $67.8 million, $62.7 million, and $69.1 million in 2003, 2002 and 2001, respectively.

Stock-Based Compensation

The Company has in place a long-term incentive plan for the benefit of certain employees, consultants and directors, which is described more fully in Note M. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations. No stock-based employee compensation cost is reflected in net earnings, as all options granted under those plans had an exercise price equal to the quoted market price of the underlying common stock on the date of grant. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board (“FASB”) Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Year Ended December 31,		
	2003	2002	2001
	(In thousands, except per share data)		
Net earnings allocable to common stockholders			
As reported	$181,496	$161,961	$50,809
Deduct: Total stock-based employee compensation under fair value based method for all awards, net of related tax expense	15,687	11,290	7,380
Pro forma	$165,809	$150,671	$43,429
Basic earnings per common share			
As reported	$ 2.16	$ 2.20	$ 0.79
Pro forma	$ 1.97	$ 2.05	$ 0.67
Diluted earnings per common share			
As reported	$ 2.08	$ 1.89	$ 0.71
Pro forma	$ 1.90	$ 1.77	$ 0.64

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: expected volatility of 54.6% to 56.5%; risk-free interest rates of 3.1% to 3.7%, 3.5% to 5.5%, and 4.2% to 5.3% in 2003, 2002, and 2001 respectively; no dividend yield; and expected lives of seven years. During the fourth quarter of 2003, the Company revised its estimate of the weighted average expected life of options from seven years to four years. The effect of such change was not material to the amounts reflected in the above table for the 2003 pro forma stock-based compensation expense.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the associated expenses, during the reporting period. Actual results could differ from those estimates.

Other Comprehensive Income

Other comprehensive income refers to revenues, expenses, gains and losses that under accounting principles generally accepted in the United States of America are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. The Company's other comprehensive income was attributed to changes in the fair value of interest rate swap agreements, net of tax.

New Accounting Pronouncements

In December 2003, the FASB issued a revision to Interpretation 46 (FIN 46R), to clarify some of the provisions of FASB Interpretation No. 46 *"Consolidation of Variable Interest Entities."* Variable interest entities within the scope of FIN 46R will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. Application of FIN 46R is required in financial statements of public entities that have interests in structures that are commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of variable interest entities is required in financial statements for periods ending after March 15, 2004. The Company has determined that the adoption of the provisions of FIN 46R will not have a material impact on its financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity."* SFAS No. 150 revised the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new statement requires that those instruments be classified as liabilities in statements of financial condition. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is generally effective at the beginning of the first interim period beginning after June 15, 2003. We adopted this standard during the third quarter of 2003 and reclassified $2,000 of redeemable convertible voting preferred stock to liabilities.

Prior Year Reclassifications on Financial Statements for Comparability

Certain reclassifications have been made to prior year's financial data in order to conform to the 2003 presentation.

Note B — Receivables and Allowance for Doubtful Accounts

Receivables consist of the following:

	At December 31,	
	2003	2002
	(In thousands)	
Installment sales receivable	$14,372	$ 5,391
Trade receivables	2,495	1,951
Total	16,867	7,342
Less allowance for doubtful accounts	(1,918)	(1,420)
Net receivables	$14,949	$ 5,922

Changes in the Company's allowance for doubtful accounts are as follows:

	At December 31,	
	2003	2002
	(In thousands)	
Beginning balance	$1,420	$ —
Bad debt expense	753	1,454
Accounts written-off	(312)	(34)
Recoveries	57	—
Ending balance	$1,918	$1,420

Note C — Rental Merchandise

	December 31,	
	2003	2002
	(In thousands)	
On rent		
Cost	$941,642	$906,305
Less accumulated depreciation	398,733	396,121
Net book value, on rent	$542,909	$510,184
Held for rent		
Cost	$179,067	$161,316
Less accumulated depreciation	39,609	39,776
Net book value, held for rent	$139,458	$121,540

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reconciliation of Rental Merchandise

	December 31, 2003	December 31, 2002	December 31, 2001
	(In thousands)		
Beginning merchandise value	$ 631,724	$ 653,701	$ 587,232
Inventory additions through acquisitions	58,942	18,469	17,734
Purchases	612,276	494,903	526,909
Depreciation of rental merchandise	(432,696)	(383,400)	(343,197)
Cost of good sold	(122,922)	(88,404)	(72,539)
Skips and stolens	(50,216)	(48,110)	(44,293)
Other inventory deletions[1]	(14,741)	(15,435)	(18,145)
Ending merchandise value	$ 682,367	$ 631,724	$ 653,701

(1) Other inventory deletions include loss/damage waiver claims and unrepairable and missing merchandise, as well as acquisition write-offs.

Note D — Property Assets

	December 31, 2003	December 31, 2002
	(In thousands)	
Furniture and equipment	$133,394	$113,579
Transportation equipment	29,924	24,972
Building and leasehold improvements	117,135	99,025
Construction in progress	6,494	1,013
	286,947	238,589
Less accumulated depreciation	165,038	132,640
	$121,909	$105,949

Note E — Intangible Assets and Acquisitions

Intangibles consist of the following (in thousands):

		December 31, 2003		December 31, 2002	
	Avg. Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets					
Franchise network	10	$ 3,000	$ 2,250	$ 3,000	$ 1,950
Non-compete agreements	4	5,275	1,788	1,510	1,444
Customer relationships	1.5	20,699	15,561	12,706	6,365
Total		28,974	19,599	17,216	9,759
Intangible assets not subject to amortization					
Goodwill		887,221	99,162	835,557	99,162
Total intangibles		$916,195	$118,761	$852,773	$108,921

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Aggregate Amortization Expense	
Year ended December 31, 2003	$12,512
Year ended December 31, 2002	$ 5,045

Supplemental information regarding intangible assets and amortization.

Estimated amortization expense, assuming current intangible balances and no new acquisitions, for each of the years ending December 31, is as follows:

	Estimated Amortization Expense
	(In thousands)
2004	$6,327
2005	1,676
2006	1,279
2007	93
Total	$9,375

Changes in the carrying amount of goodwill for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
	(In thousands)	
Balance as of January 1,	$736,395	$707,362
Additions from acquisitions	48,445	31,278
Tax benefit not recorded from previous acquisition	—	(6,125)
Post purchase price allocation adjustments	3,219	3,880
Balance as of December 31,	$788,059	$736,395

In contrast to accounting standards in effect during 2001, SFAS 142, *Goodwill and Other Intangible Assets*, which became effective beginning in 2002, provides that goodwill should not be amortized, but should be evaluated at least annually for impairment. There were no impairment losses to goodwill for the year ended December 31, 2003. Accordingly, with the adoption of SFAS 142 in 2002, the Company discontinued the amortization of goodwill. The information presented below reflects adjustments to information reported in 2001 as if SFAS 142 had been applied in that year.

Net earnings and earnings per common share, excluding the after tax effect of amortization expense related to goodwill, for the years ending December 31, 2003, 2002 and 2001 are as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands, except per share data)		
Reported net earnings	$181,496	$172,173	$66,217
Goodwill amortization, net of tax	—	—	24,892
Adjusted net earnings	$181,496	$172,173	$91,109
Basic earnings per common share:			
Reported earnings per share	$ 2.16	$ 2.20	$ 0.79
Add back: Goodwill amortization, net of tax	—	—	0.39
Adjusted earnings per share	$ 2.16	$ 2.20	$ 1.18
Diluted earnings per common share:			
Reported earnings per share	$ 2.08	$ 1.89	$ 0.71
Add back: Goodwill amortization, net of tax	—	—	0.27
Adjusted earnings per share	$ 2.08	$ 1.89	$ 0.98

Acquisitions

The following table provides information concerning the acquisitions made during the years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,		
	2003	2002	2001
	(Dollar amounts in thousands)		
Number of stores acquired	160	83	95
Number of locations from which accounts were acquired	220	126	90
Number of transactions	39	53	52
Total purchase price	$126,119	$59,504	$49,835
Amounts allocated to:			
Goodwill	$ 48,445	$31,278	$29,845
Non-compete agreements	4,515	10	—
Customer relationships	9,938	8,783	2,150
Property assets	4,166	946	46
Rental merchandise	58,942	18,469	17,734
Other assets	113	18	60

On February 8, 2003, the Company completed the acquisition of substantially all of the assets of 295 rent-to-own stores from Rent-Way, Inc. for an aggregate purchase price of $100.4 million in cash. Of the aggregate purchase price, the Company held back $10.0 million to pay for various indemnified liabilities and expenses, if any, of which $5.0 million was remitted in the second quarter of 2003 and the remaining amount, up to $5.0 million, the Company expects to remit in August 2004. The Company funded the acquisition entirely from cash on hand. Of the 295 stores, 176 were subsequently merged with the Company’s existing store locations. The Company entered into this transaction seeing it as an opportunistic acquisition that would allow it to expand its store base in conjunction with its strategic growth plans. The acquisition price was determined by evaluating the average monthly rental income of the acquired stores and applying a multiple to the total. The value is based upon the fair value assigned to the tangible and identifiable intangible assets acquired and is based upon the present value of future cash flows, historic longevity of like-kind customer base, historic profitability of like-kind customer base and the number of customer relationships acquired. The excess of purchase consideration over the fair value of tangible assets and identifiable intangible assets acquired was assigned to goodwill. The final purchase price allocation resulted in a $4.0 million decrease in the value assigned to customer relationships and a $4.0 million increase in the value placed on the non-compete agreement as compared to the Company's original estimates as disclosed in its 2002 Annual Report on Form 10-K. The table below summarizes the allocation of the purchase price based on the fair values of the assets acquired:

	Fair Values
	(In thousands)
Inventory	$ 50,100
Property assets	4,300
Customer relationships	7,900
Non-compete agreement	4,300
Goodwill	33,800
Total assets acquired	$100,400

Customer relationships are amortized utilizing the straight-line method over an 18 month period. The non-compete agreement is amortized using the straight-line method over a four year period and, in accordance with SFAS 142, the goodwill associated with the acquisition will not be amortized, but will be deductible for tax purposes.

All acquisitions in 2003 and the acquisitions that occurred during 2002 and 2001 were not significant, individually or in the aggregate, to the Company's consolidated financial position or statement of operations for these periods. All acquisitions have been accounted for as purchases, and the operating results of the acquired businesses have been included in the financial statements since their date of acquisition.

Note F — Recapitalization

In April 2003, the Company announced and commenced a program to recapitalize a portion of its financial structure in a series of transactions. The recapitalization consisted of the tender offer for all of Rent-A-Center East's $272.25 million principal amount of senior subordinated notes, paying 11% interest, due 2008 (the "11% Notes"), the redemption of the 11% Notes, the issuance of $300.0 million principal amount of senior subordinated notes, paying 7 1/2% interest, due 2010 (the "7 1/2% Notes"), the refinancing of its senior debt and the repurchase of shares of its common stock.

On May 6, 2003, the Company repurchased approximately $183.0 million principal amount of 11% Notes pursuant to a debt tender offer announced on April 23, 2003. On August 15, 2003, the Company redeemed all of the remaining outstanding 11% Notes in accordance with the terms of the indenture governing the 11% Notes, at the applicable redemption price of 105.5% of the principal amount, plus accrued and unpaid interest to that date. The total aggregate redemption price for the 11% Notes was approximately $93.75 million, including $4.65 million in accrued interest and $4.65 million in redemption premium. Proceeds from the offering of $300 million in 7 1/2% Notes were used to pay for the redemption.

On April 25, 2003, the Company announced that it entered into an agreement with Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P. (collectively "Apollo") which provided for the repurchase of a number of shares of Rent-A-Center's common stock sufficient to reduce Apollo's aggregate record ownership to 19.00% after consummation of Rent-A-Center's planned tender offer at the price per share paid in the tender offer. On April 28, 2003, the Company commenced a tender offer to purchase up to 2.2 million shares of Rent-A-Center's common stock (on a pre-split basis) pursuant to a modified "Dutch Auction." On June 25, 2003, the Company closed the tender offer and purchased 1,769,960 shares of Rent-A-Center's common stock (on a pre-split basis) at $73 per share (on a pre-split basis) for approximately $129.2 million. On July 11, 2003, the Company closed the Apollo transaction and purchased 774,547 shares of Rent-A-Center's common stock (on a pre-split basis) at $73 per share (on a pre-split basis) for approximately $56.5 million. As contemplated by the Apollo agreement, Apollo also exchanged their shares of Series A preferred stock for shares of Series C preferred stock. As a result, no shares of Series A preferred stock remain outstanding. The terms of the Series A preferred stock and Series C preferred stock are substantially similar, except the Series C preferred stock does not have the right to directly elect any members of Rent-A-Center's Board of Directors.

On May 6, 2003, Rent-A-Center issued $300.0 million in 7 1/2% Notes, the proceeds of which were used, in part, to fund the repurchase and redemption of the 11% Notes.

On May 28, 2003, the Company refinanced its then existing senior debt by entering into a new $600.0 million senior credit facility, consisting of a $400.0 million term loan, a $120.0 million revolving credit facility and an $80.0 million additional term loan.

During the second and third quarter of 2003, the Company recorded an aggregate of $35.3 million in non-recurring financing charges in connection with the foregoing recapitalization which consisted of senior subordinated note premiums of approximately $18.7 million, senior subordinated note issue costs and loan origination fees written-off of approximately $11.9 million and other bank charges and fees of approximately $4.7 million.

Note G — Senior Credit Facility

On May 28, 2003, the Company entered into a new senior credit facility to replace its old senior credit facility. The new and old senior credit facilities as of December 31, 2003 and 2002 are as follows:

		December 31, 2003			December 31, 2002		
	Facility Maturity	Maximum Facility	Amount Outstanding	Amount Available	Maximum Facility	Amount Outstanding	Amount Available
				(In thousands)			
Senior Credit Facility:							
Term Loan "B"(1)	2009	$398,000	$398,000	$ —	$ —	$ —	$ —
Term Loan "B"	2006	—	—	—	72,404	72,404	—
Term Loan "C"	2007	—	—	—	128,753	128,753	—
Term Loan "D"	2007	—	—	—	48,343	48,343	—
Tranche D LC(2)	2007	—	—	—	80,000	—	—
Tranche A LC(1)	2009	80,000	—	—	—	—	—
Revolver(3)	2009	120,000	—	90,176	120,000	—	114,300
		598,000	398,000	90,176	449,500	249,500	114,300
Other Indebtedness:							
Line of credit		10,000	—	10,000	10,000	—	10,000
Total Debt Facilities		$608,000	$398,000	$100,176	$459,500	$249,500	$124,300

(1) On May 28, 2003, the Company entered into a new senior credit facility provided by a syndicate of banks and other financial institutions led by Lehman Commercial Paper, Inc., as administrative agent. At December 31, 2003, the Company had a total of

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

$398.0 million outstanding under its new senior credit facility related to its term loans and $90.2 million of availability under the revolving credit line portion of its new senior credit facility. The new senior credit facility also includes an $80.0 million additional term loan facility. This facility is currently held to support the Company's outstanding letters of credit. In the event that a letter of credit is drawn upon, the Company has the right to either repay the additional term loan facility lenders the amount withdrawn or request a loan in that amount. Interest on any requested additional term loan facility loan accrues at an adjusted prime rate plus 1.25% or, at the Company's option, at the Eurodollar base rate plus 2.25%, with the entire amount of the additional term loan facility due on May 28, 2009.

(2) On May 3, 2002, the Company amended the old senior credit facility to provide for a new Tranche D LC facility in an aggregate amount at closing equal to $80.0 million to support its outstanding letters of credit. Under this Tranche D LC facility, in the event that a letter of credit was drawn upon, the Company had the right to either repay the Tranche D LC lenders the amount withdrawn or request a loan in that amount. Interest on any requested Tranche D LC loan accrued at an adjusted prime rate plus 1.75% or, at the Company's option, at the Eurodollar Rate plus 2.80%, with the entire amount of the Tranche D LC facility due on December 31, 2007. This facility has since been eliminated.

(3) At December 31, 2003 and 2002, the amounts available under the Company's revolving facility were reduced by approximately $29.8 million and $5.7 million, respectively, for outstanding letters of credit used to support the Company's insurance obligations. The Company provides assurance to its insurance providers that if they are not be able to draw funds from the Company for claims paid, they have the ability to draw against the Company's letters of credit. At that time, the Company would then owe the drawn amount to the financial institution providing the letter of credit. One of the Company's letters of credit is renewed automatically every year unless the Company notifies the institution not to renew. The other letter of credit expires in August 2004, but is automatically renewed each year for a one year period unless the institution notifies the Company no later than thirty day prior to the applicable expiration date that such institution does not elect to renew the letter of credit for such additional one year period.

Borrowings under the Company's new senior credit facility bear interest at varying rates equal to 2.25% over the Eurodollar rate, which was 1.12% at December 31, 2003. The Company also has a prime rate option under the facility, but has not exercised it to date. The Company has not entered into any interest rate protection agreements with respect to term loans under the new senior credit facility. A commitment fee equal to 0.25% to 0.50% of the unused portion of the revolving credit facility is payable quarterly.

The Company's new senior credit facility contains covenants, including without limitation, covenants that generally limit its ability to:

- incur additional debt (including subordinated debt) in excess of $35 million at any one time outstanding;
- repurchase its capital stock and 7 1/2% notes;
- incur liens or other encumbrances;
- merge, consolidate or sell substantially all its property or business;
- sell assets, other than inventory in the ordinary course of business;
- make investments or acquisitions unless it meets financial tests and other requirements;
- make capital expenditures; or
- enter into a new line of business.

The Company's new senior credit facility requires it to comply with several financial covenants, including a maximum consolidated leverage ratio, a minimum consolidated interest coverage ratio and a minimum fixed charge coverage ratio. At December 31, 2003, the maximum consolidated leverage ratio was 2.75:1, the minimum consolidated interest coverage ratio was 3.50:1, and the minimum fixed charge coverage ratio was 1.50:1. On that date, the Company's actual ratios were 1.52:1, 6.42:1 and 2.52:1, respectively. In addition, the Company is generally required to use 25% of the net proceeds from equity offerings to repay its term loans.

Events of default under the Company's new senior credit facility include customary events, such as a cross-acceleration provision in the event that it defaults on other debt. In addition, an event of default under the new senior credit facility would occur if there is a change of control. This is defined to include the case where a third party becomes the beneficial owner of 35% or more of Rent-A-Center's voting stock or certain changes in Rent-A-Center's Board of Directors occur.

The new senior credit facility is collateralized by substantially all of the Company's tangible and intangible assets, and is unconditionally guaranteed by each of the Company's U.S. subsidiaries. In addition, the new senior credit facility contains several financial covenants as defined therein, including a maximum consolidated leverage ratio, a minimum consolidated interest coverage ratio, and a minimum consolidated fixed charge coverage ratio, as well as restrictions on capital expenditures, additional indebtedness, and the disposition of assets not in the ordinary course of business.

The following are scheduled maturities of the new senior credit facility at December 31, 2003:

Year Ending December 31,	(In thousands)
2004	$ 4,000
2005	4,000
2006	4,000
2007	4,000
2008	192,000
Thereafter	190,000
	$398,000

Note H — Subordinated Notes Payable

11% Senior Subordinated Notes. In December 2001, Rent-A-Center East issued $100.0 million of 11% senior subordinated notes, maturing on August 15, 2008, under an indenture dated as of December 19, 2001 among Rent-A-Center East, its subsidiary guarantors and The Bank of New York, as trustee. On May 2, 2002, Rent-A-Center East closed an exchange offer for, among other things, approximately $175.0 million of senior subordinated notes issued by it under a previous indenture, such that, on that date, all senior subordinated notes were governed by the terms of the 2001 indenture. The 2001 indenture contained covenants that limited Rent-A-Center East's ability to, among other things, incur additional debt, grant liens to third parties, and pay dividends or repurchase stock. On May 6, 2003, Rent-A-Center East repurchased approximately $183.0 million of its then outstanding 11% Notes. On August 15, 2003, Rent-A-Center East redeemed the remaining outstanding 11% Notes.

7 1/2% Senior Subordinated Notes. On May 6, 2003, Rent-A-Center issued $300.0 million in senior subordinated notes due 2010, bearing interest at 7 1/2%, pursuant to an indenture dated May 6, 2003, among Rent-A-Center, Inc., its subsidiary guarantors (the "Subsidiary Guarantors") and The Bank of New York, as trustee. The proceeds of this offering were used to fund the repurchase and redemption of the then outstanding 11% Notes.

The 2003 indenture contains covenants that limit Rent-A-Center's ability to:

- incur additional debt;
- sell assets or its subsidiaries;
- grant liens to third parties;
- pay dividends or repurchase stock; and
- engage in a merger or sell substantially all of its assets.

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Events of default under the 2003 indenture include customary events, such as a cross-acceleration provision in the event that Rent-A-Center defaults in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding $50.0 million.

The 7 1/2% Notes may be redeemed on or after May 1, 2006, at the Company's option, in whole or in part, at a premium declining from 103.75%. The 7 1/2% Notes also require that upon the occurrence of a change of control (as defined in the 2003 indenture), the holders of the notes have the right to require Rent-A-Center to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase. This would trigger an event of default under the Company's new senior credit facility.

Rent-A-Center and the Subsidiary Guarantors have fully, jointly and severally, and unconditionally guaranteed the obligations of Rent-A-Center with respect to the 7 1/2% Notes. The only direct or indirect subsidiaries of Rent-A-Center that are not guarantors are minor subsidiaries. There are no restrictions on the ability of any of the Guarantors to transfer funds to Rent-A-Center in the form of loans, advances or dividends, except as provided by applicable law.

Set forth below is certain condensed consolidating financial information as of December 31, 2003 and 2002, and for each of the three years for the period ended December 31, 2003. The financial information includes the Subsidiary Guarantors from the dates they were acquired or formed by Rent-A-Center and Rent-A-Center East and is presented using the push-down basis of accounting.

Condensed Consolidating Statements of Operations

	Parent Company	Subsidiary Guarantors	Total
		(In thousands)	
Year ended December 31, 2003			
Total revenues	$ —	$2,228,150	$2,228,150
Direct store expenses	—	1,735,733	1,735,733
Other	—	310,921	310,921
Net earnings	$ —	$ 181,496	$ 181,496

	Parent Company	Rent-A-Center East	Subsidiary Guarantors	Total
Year ended December 31, 2002				
Total revenues	$ —	$1,946,601	$63,443	$2,010,044
Direct store expenses	—	1,538,293	3,776	1,542,069
Other	—	238,288	57,514	295,802
Net earnings	$ —	$ 170,020	$ 2,153	$ 172,173

	Parent Company	Rent-A-Center East	Subsidiary Guarantors	Total
Year ended December 31, 2001				
Total revenues	$1,749,060	$ —	$59,468	$1,808,528
Direct store expenses	1,435,138	—	—	1,435,138
Other	243,266	—	63,907	307,173
Net earnings (loss)	$ 70,656	$ —	$ (4,439)	$ 66,217

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Condensed Consolidating Balance Sheets

	Parent Company	Subsidiary Guarantors	Consolidating Adjustments	Totals
		(In thousands)		
December 31, 2003				
Merchandise inventory, net	$ —	$ 682,367	$ —	$ 682,367
Intangible assets, net	—	797,434	—	797,434
Other assets	882,876	231,893	(763,268)	351,501
Total assets	$882,876	$1,711,694	$(763,268)	$1,831,302
Senior Debt	$398,000	$ —	$ —	$ 398,000
Other liabilities	300,002	759,996	(421,526)	638,472
Stockholder's equity	184,874	951,698	(341,742)	794,830
Total liabilities and equity	$882,876	$1,711,694	$(763,268)	$1,831,302

	Parent Company	Rent-A-Center East	Subsidiary Guarantors	Consolidating Adjustments	Totals
December 31, 2002					
Merchandise inventory, net	$ —	$ 630,256	$ 1,468	$ —	$ 631,724
Intangible assets, net	—	400,327	343,525	—	743,852
Other assets	417,507	132,358	42,953	(341,742)	251,076
Total assets	$417,507	$1,162,941	$387,946	$(341,742)	$1,626,652
Senior Debt	$ —	$ 249,500	$ —	$ —	$ 249,500
Other liabilities	2	506,111	28,639	—	534,752
Stockholder's equity	417,505	407,330	359,307	(341,742)	842,400
Total liabilities and equity	$417,507	$1,162,941	$387,946	$(341,742)	$1,626,652

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Condensed Consolidating Statements of Cash Flows

	Parent Company	Subsidiary Guarantors	Total
		(In thousands)	
Year ended December 31, 2003			
Net cash provided by operating activities	$ —	$ 342,412	$ 342,412
Cash flows from investing activities			
Purchase of property assets	—	(55,987)	(55,987)
Acquisitions of businesses	—	(126,119)	(126,119)
Other	—	809	809
Net cash used in investing activities	—	(181,297)	(181,297)
Cash flows from financing activities			
Purchase of treasury stock	(273,175)	—	(273,175)
Exercise of stock options	29,783	—	29,783
Issuance of subordinated notes	300,000	—	300,000
Payment of refinancing fees	(17,049)	—	(17,049)
Proceeds from debt	400,000	—	400,000
Repurchase of subordinated notes, including premium	—	(290,956)	(290,956)
Repayments of debt	(2,000)	(249,500)	(251,500)
Intercompany advances	(376,553)	376,553	—
Net cash provided by (used in) financing activities	61,006	(163,903)	(102,897)
Net increase (decrease) in cash and cash equivalents	61,006	(2,788)	58,218
Cash and cash equivalents at beginning of year	—	85,723	85,723
Cash and cash equivalents at end of year	$ 61,006	$ 82,935	$ 143,941

	Parent Company	Rent-A-Center East	Subsidiary Guarantors	Total
		(In thousands)		
Year ended December 31, 2002				
Net cash provided by operating activities	$ —	$ 288,843	$ 5,647	$ 294,490
Cash flows from investing activities				
Purchase of property assets	—	(36,895)	(701)	(37,596)
Acquisitions of businesses	—	(59,504)	—	(59,504)
Other	—	398	—	398
Net cash used in investing activities	—	(96,001)	(701)	(96,702)
Cash flows from financing activities				
Purchase of treasury stock	—	(65,565)	—	(65,565)
Exercise of stock options	—	26,792	—	26,792
Repayments of debt	—	(178,500)	—	(178,500)
Repurchase of senior subordinated notes, net of loss	—	(2,750)	—	(2,750)
Intercompany advances	—	4,946	(4,946)	—
Net cash used in financing activities	—	(215,077)	(4,946)	(220,023)

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Parent Company	Rent-A-Center East	Subsidiary Guarantors	Total
		(In thousands)		
Net decrease in cash and cash equivalents	—	(22,235)	—	(22,235)
Cash and cash equivalents at beginning of year	—	107,958	—	107,958
Cash and cash equivalents at end of year	$ —	$ 85,723	$ —	$ 85,723
Year ended December 31, 2001				
Net cash provided by operating activities	$ 169,178	$ —	$ 6,552	$ 175,730
Cash flows from investing activities				
Purchase of property assets	(57,477)	—	(55)	(57,532)
Acquisitions of businesses	(49,835)	—	—	(49,835)
Other	706	—	—	706
Net cash used in investing activities	(106,606)	—	(55)	(106,661)
Cash flows from financing activities				
Purchase of treasury stock	(25,000)	—	—	(25,000)
Exercise of stock options	20,317	—	—	20,317
Repayments of debt	(138,051)	—	—	(138,051)
Proceeds from debt	99,506	—	—	99,506
Proceeds from issuance of common stock	45,622	—	—	45,622
Intercompany advances	6,497	—	(6,497)	—
Net cash provided by (used in) financing activities	8,891	—	(6,497)	2,394
Net increase in cash and cash equivalents	71,463	—	—	71,463
Cash and cash equivalents at beginning of year	36,495	—	—	36,495
Cash and cash equivalents at end of year	$ 107,958	$ —	$ —	$ 107,958

Note I — Accrued Liabilities

	December 31,	
	2003	2002
	(In thousands)	
Taxes other than income	$ 26,394	$ 22,719
Accrued litigation costs	1,800	1,667
Accrued insurance costs	69,763	49,883
Accrued interest payable	3,589	13,684
Accrued compensation and other	31,298	34,764
	$132,844	$122,717

Note J — Redeemable Convertible Voting Preferred Stock

There are 5,000,000 shares of preferred stock authorized and only two shares are issued and outstanding at December 31, 2003 and 2002, respectively.

In August 1998, Rent-A-Center issued $260.0 million of redeemable convertible voting preferred stock with a $0.01 par value. In connection with such issuance, Rent-A-Center entered into a registration rights agreement with affiliates of Apollo which, among other things, granted them two rights to request that their shares be registered, and a registration rights agreement with an affiliate of Bear Stearns, which granted them the right to participate in any company-initiated registration of shares, subject to certain exceptions. In May 2002, Apollo exercised one of their two rights to request that their shares be registered and an affiliate of Bear Stearns elected to participate in such registration. In connection therewith, Apollo and the affiliate of Bear Stearns converted 97,197 shares of Rent-A-Center's preferred stock held by them into 3,500,000 shares (on a pre-split basis) of Rent-A-Center's common stock, which they sold in the May 2002 public offering that was the subject of Apollo's request. Rent-A-Center did not receive any of the proceeds from this offering.

On August 5, 2002, the first date in which Rent-A-Center had the right to optionally redeem the shares of preferred stock, the holders of Rent-A-Center's preferred stock converted all but two shares of Rent-A-Center's preferred stock held by them into 7,281,548 shares of Rent-A-Center's common stock (on a pre-split basis). As a result, the dividend on Rent-A-Center's preferred stock has been substantially eliminated for future periods.

Rent-A-Center's preferred stock is convertible, at any time, into shares of Rent-A-Center's common stock at a conversion price equal to $11.174 per share (on a split adjusted basis), and has a liquidation preference of $1,000 per share, plus all accrued and unpaid dividends. No distributions may be made to holders of common stock until the holders of the preferred stock have received the liquidation preference. Dividends accrue on a quarterly basis, at the rate of $37.50 per annum, per share. During 2002 and 2001, Rent-A-Center accounted for shares of preferred stock distributed as dividends in-kind at the greater of the stated value or the value of the common stock obtainable upon conversion on the payment date. During 2003, Rent-A-Center paid all preferred stock dividends in cash. During 2002 and 2001, Rent-A-Center paid approximately $8.2 million and $10.7 million in preferred dividends by issuing 8,151 and 10,678 shares of preferred stock, respectively.

Affiliates of Apollo hold all of the Company's outstanding Series C preferred stock. Pursuant to the terms of a stockholders agreement entered into among the Company, Apollo, Mark E. Speese and certain other parties, Apollo has the right to designate two persons to be nominated to the Company's Board of Directors. The terms of the Company's Series C preferred stock as well as the stockholders agreement also contain provisions requiring Apollo's approval to effect certain transactions involving the Company, including repurchasing shares of the Company's common stock, declaring or paying any dividend on its common stock, increasing the size of the Company's Board of Directors to more than eight persons, selling all or substantially all of the Company's assets and entering into any merger or consolidation or other business combination.

These documents also provide that one member of each of the Company's board committees must be a director who was designated for nomination by Apollo. In addition, the terms of the Company's Series C preferred stock and the stockholders agreement restrict the Company's ability to issue debt or equity securities with a value in excess of $10 million without the majority affirmative vote of the Company's finance committee, and in most cases, require the unanimous vote of its finance committee for the issuance of the Company's equity securities with a value in excess of $10 million.

Note K — Income Taxes

The components of the income tax provision are as follows:

	Year Ended December 31,		
	2003	2002	2001
Tax at statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.3%	4.6%	5.7%
Effect of foreign operations, net of foreign tax credits	0.1%	0.1%	0.8%
Goodwill amortization	0.0%	0.0%	5.8%
Other, net	0.2%	0.6%	(0.4)%
Total	37.6%	40.3%	46.9%

The components of income tax provision are as follows:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Federal	$ 53,615	$ 11,211	$24,073
State	9,382	9,625	8,795
Foreign	2,232	1,855	1,865
Total current	65,229	22,691	34,733
Deferred expense			
Federal	43,349	84,368	22,400
State	756	9,211	1,456
Total deferred	44,105	93,579	23,856
Total	$109,334	$116,270	$58,589

Deferred tax assets and liabilities consist of the following:

	December 31,	
	2003	2002
	(In thousands)	
Deferred tax assets		
State net operating loss carryforwards	$ 2,101	$ 1,698
Accrued expenses	—	7,691
Intangible assets	5,306	11,116
Property assets	21,809	22,794
Other tax credit carryforwards	508	579
Unrealized loss on interest rate swap agreements	—	2,537
	29,724	46,415
Valuation allowance	(508)	—
Deferred tax liabilities		
Rental merchandise	(157,404)	(132,557)
Accrued expenses	(4,730)	—
	(162,134)	(132,557)
Net deferred taxes	$(132,918)	$ (86,142)

The deferred tax expense represents the change between years in net deferred taxes except for the changes associated with items in other comprehensive income. The Company has no alternative minimum tax credit carryforwards, but does have various state net operating loss carryforwards.

Note L — Commitments and Contingencies

The Company leases its office and store facilities and most delivery vehicles. The office space and certain of the store leases contain escalation clauses for increased taxes and operating expenses. Rental expense was $154.4 million, $138.0 million and $127.6 million for 2003, 2002, and 2001, respectively. Future minimum rental payments under operating leases with remaining non-cancelable lease terms in excess of one year at December 31, 2003 are as follows:

Year Ending December 31,	(In thousands)
2004	$121,038
2005	104,974
2006	69,569
2007	41,232
2008	17,809
Thereafter	1,976
	$356,598

From time to time, Rent-A-Center, along with its subsidiaries, is party to various legal proceedings arising in the ordinary course of business. Rent-A-Center is currently a party to the following material litigation:

Colon v. Thorn Americas, Inc. In November 1997, the plaintiffs filed this statutory compliance class action lawsuit in New York alleging various statutory violations of New York consumer protection laws. The plaintiffs are seeking, among other things, compensatory and punitive damages, interest, attorney’s fees and certain injunctive relief. The plaintiff moved to certify a state-wide class in December 2000. On September 12, 2002, the court issued an opinion denying in part and granting in part the plaintiff's requested certification. The opinion grants certification as to all of the plaintiff's claims except the plaintiff's pricing claims pursuant to the New York Rental Purchase Statute, as to which certification was denied. The parties have differing views as to the effect of the court's opinion, and accordingly, the court granted the parties permission to submit competing orders as to the effect of the opinion on the plaintiff's specific claims. Both proposed orders were submitted to the court on March 27, 2003. No order has yet been entered by the court. The Company intends to vigorously defend itself in this matter. However, there can be no assurance that the Company will prevail without liability.

Terry Walker, et. al. v. Rent-A-Center, Inc., et. al. In January 2002, a putative class action was filed against the Company and certain of its current and former officers and directors alleging that the defendants violated Section 10(b) and/or Section 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by issuing false and misleading statements and omitting material facts regarding the Company's financial performance and prospects for the third and fourth quarters of 2001. The complaint purports to be brought on behalf of all purchasers of Rent-A-Center's common stock from April 25, 2001 through October 8, 2001 and seeks damages in unspecified amounts.

In November 2002, the lead plaintiffs in the *Walker* matter filed an amended consolidated complaint which added certain of the Company's outside directors as defendants to the Exchange Act claims. The amended complaint also added additional claims that the Company, and certain of the Company's current and former officers and directors, violated various provisions of the Securities Act as a result of alleged misrepresentations and omissions in connection with an offering in May 2001 and also added the managing underwriters in that offering as defendants.

On February 7, 2003, the Company, along with certain officer and director defendants, filed a motion to dismiss the matter as well as a motion to transfer venue. In addition, the Company's outside directors named in the matter separately filed a motion to dismiss the Securities Act claims on statute of limitations grounds. On February 19, 2003, the underwriter defendants also filed a motion to dismiss the matter.

On September 30, 2003, the court granted the Company's motion to dismiss without prejudice, dismissed without prejudice the outside directors' and underwriters' separate motions to dismiss and denied the Company's motion to transfer venue. In its order on the motions to dismiss, the court granted the lead plaintiffs leave to replead the case within certain parameters. On October 9, 2003, the lead plaintiffs filed a motion for reconsideration with the court with respect to the Securities Act claims. In that motion, they indicated they intend to replead their claims. The Company filed its response to this motion on October 24, 2003. No decision on the lead plaintiffs' motion has been entered by the court. The Company intends to vigorously defend itself in this matter. However, there can be no assurance that the Company will prevail without liability.

Gregory Griffin, et. al. v. Rent-A-Center, Inc. On June 25, 2002, a suit originally filed by Gregory Griffin in state court in Philadelphia, Pennsylvania was amended to seek relief both individually and on behalf of a class of customers in Pennsylvania, alleging that the Company violated the Pennsylvania Goods and Services Installment Sales Act and the Pennsylvania Unfair Trade Practices and Consumer Protection Law. The amended complaint asserts that the Company's rental purchase transactions are, in fact, retail installment sales transactions, and as such, are not governed by the Pennsylvania Rental-Purchase Agreement Act, which was enacted after the adoption of the Pennsylvania Goods and Services Installment Sales Act and the Pennsylvania Unfair Trade Practices Act. Griffin's suit seeks class-wide remedies, including injunctive relief, unspecified statutory, actual and treble damages, as well as attorney's fees and costs. On December 13, 2002, the trial court dismissed the plaintiffs' claims. On January 6, 2003, the plaintiffs filed a notice of appeal, and on December 2, 2003, the Superior Court of Pennsylvania issued an opinion finding that the court properly ruled that the Company's rental purchase agreements are governed by the Pennsylvania Rental-Purchase Agreement Act and not the Pennsylvania Goods and Services Installment Sales Act. In doing so, the Superior Court reversed the trial court's dismissal of the plaintiffs' amended complaint and remanded the case back to the trial court for filing of an amended complaint. On March 29, 2004, the Company received a letter from the plaintiffs' counsel indicating their intention to file an amended complaint alleging violations under the Pennsylvania Rental-Purchase Agreement Act. The Company intends to vigorously defend itself in this matter. However, there can be no assurance that the Company will prevail without liability.

Benjamin Griego, et al. v. Rent-A-Center, Inc., et al. On January 21, 2002, a state-wide putative class action was filed in San Diego, California by Benjamin Griego alleging various statutory violations of California law. A similar matter, entitled *Arthur Carrillo, et al. v. Rent-A-Center, Inc., et al,* filed on April 12, 2002 in Los Angeles, California, was coordinated with *Griego* in the Superior Court for the County of San Diego on September 10, 2002. The plaintiffs seek unspecified damages and contend that no proof of actual harm or damage on the part of the individual consumer is necessary to establish recovery for these claims. Under California law, a consumer damaged by a violation of the California Rental Purchase Act is entitled to recover actual damages, statutory damages equal to twenty-five percent of an amount equal to the total amount of payments to obtain ownership if all payments were made under the rental purchase agreement (but not less than $100 nor more than $1,000), reasonable attorney's fees and court costs, exemplary damages for intentional or willful violations, and equitable relief. The California Rental Purchase Act also provides that with respect to certain violations, a rental purchase agreement is voidable by the consumer. Furthermore, the statute provides that if a lessor willfully discloses a cash price that exceeds the price permitted under the statute, the contract is void and the consumer is entitled to keep the merchandise and recover a full refund of all payments. A consumer who suffers any damage from a violation of the California Consumer Legal Remedies Act is entitled to recover actual damages, injunctive relief, restitution, punitive damages, certain civil penalties and attorneys' fees and costs.

On October 17, 2003, the plaintiffs filed their motion for class certification. On December 4, 2003, the court granted the plaintiffs' motion for class certification. The class definition includes the Company's customers in California from February 1, 1999 through January 31, 2002, and encompasses customers who entered into approximately 400,000 rental purchase agreements. Such customers also purchased approximately 167,000 memberships. With respect to such rental purchase agreements, the Company believes that twenty-five percent of the total amount of payments to obtain ownership (the maximum percentage applicable to statutory damages) was approximately $500 per agreement on average. On February 20, 2004, the court ruled that it would enter an order certifying the class described above and, with respect to the cash price claims, a sub-class of the Company's customers during the same time period who rented electronic appliances and entertainment equipment. The Company believes this sub-class encompasses customers who entered into approximately 245,000 of the 400,000 rental purchase agreements, with an average revenue of approximately $500 per agreement. On March 16, 2004, the court entered the certification order.

On February 13, 2004, the Company filed motions seeking rulings by the court on a series of legal questions applicable to plaintiffs' claims. The plaintiffs subsequently filed a cross-motion with respect to one of the legal questions. On April 2, 2004, the court ruled with respect to these motions. These rulings include that there is no requirement that class members prove actual damages resulting from violations of the Rental Purchase Act and that the pricing formula referenced in the Rental Purchase Act is merely evidence of permissible "cash prices" under the Rental Purchase Act as opposed to a statutory determination of permissible "cash prices." The court also ruled, without prejudice, that the Company's service contracts made available under the Company's membership program are offered and sold in violation of the Rental Purchase Act but agreed to allow the Company to present evidence to the contrary later in the proceeding. The court also concurred with the Company's position that the contract terms for the membership program need not be contained in the rental purchase agreement. In light of these decisions by the court, the Company is reviewing various options. The Company intends to vigorously defend itself in this matter, while seeking reasonable opportunities to resolve this matter. However, there can be no assurance that the Company will prevail without liability.

Carey Duron, et. al. v. Rent-A-Center, Inc. This matter is a putative class action filed on August 29, 2003 in the District Court of Jefferson County, Texas by Carey Duron, who alleges the Company violated certain provisions of the Texas Business and Commerce Code relating to late fees and reinstatement fees charged by the Company under its rental purchase agreements in Texas. In the complaint, Duron alleges that her contract provided for a percentage late fee greater than that permitted by Texas law, that she was charged and paid a late fee in excess of the amount permitted by Texas law and that the Company had a policy and practice of assessing and collecting late fees or reinstatement fees in excess of that allowed by Texas law. Duron has not alleged specific damages in the complaint, but seeks to recover actual damages, statutory damages, interest, reasonable attorney's fees and costs of court.

On November 26, 2003, the Company filed a motion for summary judgment in this matter. On December 4, 2003, Duron filed her motion for class certification. On March 11, 2004, the Company was notified that the court denied its summary judgment motion and granted Duron's motion for class certification. The certified class includes the Company's customers in Texas from August 29, 1999 through March 5, 2004 who were charged and paid a late fee or reinstatement fee in excess of the amount permitted by Texas law.

Under the Texas statute, a consumer damaged by a violation is entitled to recover actual damages, statutory damages equal to twenty-five percent of an amount equal to the total amount of payments required to obtain ownership of the merchandise involved (but not less than $250 nor more than $1,000), reasonable attorney's fees and court costs. With respect to the approximately 29,500 Texas customers for whom the Company has records (representing approximately two years of the recently certified class), the Company believes that twenty-five percent of the total amount of payments to obtain ownership (the maximum percentage applicable to statutory damages) under those rental purchase agreements was approximately $500 per agreement on average.

The Company has appealed the court's certification order and intends to vigorously defend itself in this matter. However, there can be no assurance that the Company will prevail without liability.

Rob Pucci, et. al. v. Rent-A-Center, Inc. On August 20, 2001, a putative class action was filed against the Company in state court in Multnomah County, Oregon alleging the Company violated various provisions of Oregon state law regarding overtime, lunch and work breaks, that the Company failed to pay all wages due to the Company's Oregon employees, and various contract claims that the Company promised but failed to pay overtime. Pucci seeks to represent a class of all present and former executive assistants, inside/outside managers and account managers employed by the Company within the six year period prior to the filing of the complaint as to the contract claims, and three years as to the statutory claims, and seeks class certification, payments for all unpaid wages under Oregon law, statutory and civil penalties, costs and disbursements, pre- and post-judgment interest in the amount of 9% per annum and attorneys fees. On July 25, 2002, the plaintiffs filed a motion for class certification. On December 9, 2003, the court issued its written order certifying the class. The Company intends to vigorously defend itself in this matter including continuing to challenge the appropriateness of class certification. However, there can be no assurance that the Company will prevail without liability.

Jeremy Burdusis, et al. v. Rent-A-Center, Inc., et al./ Israel French, et al. v. Rent-A-Center, Inc. These matters pending in Los Angeles, California were filed on October 23, 2001, and October 30, 2001, respectively, and allege similar violations of the wage and hour laws of California as those in *Pucci*. The *Burdusis* and *French* proceedings are pending before the same judge in California. On March 24, 2003, the *Burdusis* court denied the plaintiffs' motion for class certification in that case. On April 25, 2003, the plaintiffs in *Burdusis* filed a notice of appeal of that ruling, and on May 8, 2003, the *Burdusis* court, at the Company's request, stayed further proceedings in *Burdusis* and *French* pending the resolution on appeal of the court's denial of class certification in *Burdusis.* On October 30, 2003, the plaintiffs' counsel in *Burdusis* and *French* filed a new non-class lawsuit in Orange County, California entitled *Kris Corso, et al. v. Rent-A-Center, Inc.* The plaintiffs' counsel later amended this complaint to add additional plaintiffs, totaling approximately 339 individuals. The claims made are substantially the same as those in *Burdusis.* On January 16, 2004, the Company filed a demurrer to the complaint, arguing, among other things, that the plaintiffs in *Corso* were misjoined. On February 19, 2004, the court granted the Company's demurrer on the misjoinder argument, with leave for the plaintiffs to replead. On March 8, 2004, the plaintiffs filed an amended complaint in *Corso*, increasing the number of plaintiffs to approximately 540. The amended claims are substantially the same as those in *Burdusis*. The Company intends to vigorously defend itself in these matters. However, there can be no assurance that the Company will prevail without liability.

Kevin Rose, et al. v. Rent-A-Center, Inc. et al. On June 26, 2001, a putative class action was filed against the Company in state court in Washington, alleging similar violations of the wage and hour laws of Washington as those in *Pucci.* On May 14, 2003, the *Rose* court denied the plaintiffs' motion for class certification in this case. On June 3, 2003, the plaintiffs in *Rose* filed a notice of appeal under the Court of Appeals, which was subsequently denied. Following the denial by the Court of Appeals, the plaintiffs' counsel filed 14 county-wide putative class actions in Washington with substantially the same claims as in *Rose.* The purported classes in these county-wide class actions range from approximately 20 individuals to approximately 100 individuals. In December 2003, the Company filed motions to dismiss the class allegations in each of the county-wide actions. Three of these motions were subsequently granted and one is still pending before the court. Accordingly, ten of the county-wide claims are proceeding as putative class actions, three are proceeding on an individual plaintiff basis and one has not been decided by the court. The plaintiffs have not filed motions to certify a class in any of the putative county-wide class actions. The Company intends to vigorously defend itself in this matter. However, there can be no assurance that the Company will prevail without liability.

An adverse ruling in one or more of the aforementioned cases could have a material and adverse effect on the Company's consolidated financial statements.

Wisconsin Attorney General Proceeding. In August 1999, the Wisconsin Attorney General filed suit against Rent-A-Center and its subsidiary ColorTyme in Wisconsin, alleging that its rent-to-rent transaction violates the Wisconsin Consumer Act and the Wisconsin Deceptive Advertising Statute. On November 12, 2002, Rent-A-Center and ColorTyme signed a settlement agreement for this suit with the Attorney General, which was approved by the court on the same day. Under the terms of the settlement, the Company created a restitution fund in the amount of $7.0 million and paid $1.4 million to the state of Wisconsin for fines, penalties, costs and fees.

Gender Discrimination Actions. In June 2002, the Company agreed to settle the *Wilfong* and Tennessee EEOC gender discrimination matters for an aggregate of $47.0 million, including attorneys fees. The settlement contemplated dismissal of the *Bunch* proceeding, a similar suit for gender discrimination pending in a separate federal district court, and provided for a separate $2.0 million dispute resolution fund for the *Bunch* plaintiffs, which was subsequently approved by the *Bunch* court. On October 4, 2002, the court in the *Wilfong* matter approved the settlement the Company had reached with the *Wilfong* plaintiffs and entered a final judgment. The Company funded the settlement as provided for in the settlement agreement in December 2002. As contemplated by the *Wilfong* settlement, the Tennessee EEOC action was dismissed in December 2002, and the Company will file a motion to dismiss the Bunch matter upon the distribution and finalization of the dispute resolution fund.

The Company is also involved in various other legal proceedings, claims and litigation arising in the ordinary course of business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have a material adverse effect on the financial position or results of operations of the Company.

ColorTyme Guarantee. ColorTyme is a party to an agreement with Wells Fargo Foothill, Inc., who provides $50.0 million in aggregate financing to qualifying franchisees of ColorTyme generally of up to five times their average monthly revenues. Under the Wells Fargo agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Wells Fargo can assign the loans and the collateral securing such loans to ColorTyme, with ColorTyme then succeeding to the rights of Wells Fargo under the debt agreements, including the right to foreclose on the collateral. An additional $15.0 million of financing is provided by Texas Capital Bank, National Association under an agreement similar to the Wells Fargo financing. Rent-A-Center East guarantees the obligations of ColorTyme under each of these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, up to a maximum amount of $65.0 million, of which $29.0 million was outstanding as of December 31, 2003.

Note M — Stock Based Compensation

Rent-A-Center's Amended and Restated Long-Term Incentive Plan (the "Plan") for the benefit of certain employees, consultants and directors provides the Board of Directors broad discretion in creating equity incentives. Under the Plan, 14,562,865 shares of Rent-A-Center's common stock have been reserved for issuance under stock options, stock appreciation rights or restricted stock grants. Options granted to the Company's employees under the Plan generally become exercisable over a period of one to four years from the date of grant and may be exercised up to a maximum of 10 years from the date of grant. Options granted to directors are immediately exercisable. There have been no grants of stock appreciation rights and all options have been granted with fixed prices. At December 31, 2003, there were 10,713,163 shares available for issuance under the Plan, of which 6,206,897 shares were allocated to options currently outstanding. However, pursuant to the terms of the Plan, when an optionee leaves the Company's employ, unvested options granted to that employee terminate and become available for re-issuance under the Plan. Vested options not exercised within 90 days from the date the optionee leaves the Company's employ terminate and become available for re-issuance under the Plan.

Information with respect to stock option activity is as follows:

	At December 31,					
	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	8,627,690	$14.13	9,894,850	$11.37	9,475,688	$ 9.73
Granted	1,335,438	23.31	3,483,438	18.97	5,547,500	13.53
Exercised	(2,302,494)	12.94	(2,574,660)	10.38	(2,130,773)	9.24
Forfeited	(1,453,737)	17.37	(2,175,938)	13.78	(2,997,565)	11.68
Outstanding at end of year	6,206,897	$15.78	8,627,690	$14.13	9,894,850	$11.37
Options exercisable at end of year	1,922,152	$11.88	2,131,908	$10.85	2,387,030	$ 9.66

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The weighted average fair value per share of options granted during 2003, 2002 and 2001 was $13.90, $11.64, and $8.14, respectively, all of which were granted at market value. Information about stock options outstanding at December 31, 2003 is summarized as follows:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$0.00 to $2.67	48,750	1.33 years	$ 2.67
$2.68 to $7.40	188,932	4.93 years	$ 6.33
$7.41 to $11.40	2,033,959	7.11 years	$ 9.84
$11.41 to $13.55	1,003,586	7.21 years	$13.28
$13.56 to $19.62	547,896	7.43 years	$18.26
$19.63 to $32.76	2,383,774	8.84 years	$22.35
	6,206,897		

	Options Exercisable	
Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price
$0.00 to $2.67	48,750	$ 2.67
$2.68 to $7.40	127,372	$ 6.49
$7.41 to $11.40	1,048,964	$ 9.93
$11.41 to $13.55	357,165	$13.04
$13.56 to $19.62	147,896	$18.58
$19.63 to $32.76	192,005	$21.10
	1,922,152	

During 2001, Rent-A-Center issued 12,500 options to a non-employee for services. The expense related to these option agreements was recognized over the service period. No options were issued to non-employees during 2003 or 2002.

Note N — Employee Benefit Plan

Rent-A-Center sponsors a defined contribution pension plan under Section 401(k) of the Internal Revenue Code for all employees who have completed at least three months of service. Employees may elect to contribute up to 50% of their eligible compensation on a pre-tax basis, subject to limitations. Rent-A-Center may make discretionary matching contributions to the 401(k) plan. During 2003, 2002 and 2001, Rent-A-Center made matching cash contributions of $4.2 million, $3.7 million, and $3.3 million, respectively, which represents 50% of the employees' contributions to the 401(k) plan up to an amount not to exceed 4% of each employee's respective compensation. Since March 15, 2000, employees have been permitted to elect to purchase Rent-A-Center common stock as part of their 401(k) plan. As of December 31, 2003 and 2002, 19.0% and 14.0%, respectively, of the total plan assets consisted of Rent-A-Center's common stock.

Note O — Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, senior debt, and subordinated notes payable. The carrying amount of cash and cash equivalents approximates fair value at December 31, 2003 and 2002, because of the short maturities of these instruments. The Company's senior debt is variable rate debt that reprices frequently and entails no significant change in credit risk, and as a result, fair value approximates carrying value. The fair value of the subordinated notes payable is estimated based on discounted cash flow analysis using interest rates currently offered for loans with similar terms to borrowers of similar credit quality. At December 31, 2003, the fair value of the subordinated notes was $316.5 million, which is $16.5 million above their carrying value of $300.0 million.

Note P — Earnings Per Common Share

Summarized basic and diluted earnings per common share were calculated as follows:

	Net Earnings	Shares	Per Share
	(In thousands, except per share data)		
Year ended December 31, 2003			
Basic earnings per common share	$181,496	84,139	$2.16
Effect of dilutive stock options	—	3,069	
Diluted earnings per common share	$181,496	87,208	$2.08
Year ended December 31, 2002			
Basic earnings per common share	$161,961	73,458	$2.20
Effect of dilutive stock options	—	1,237	
Effect of preferred dividend	10,212	16,170	
Diluted earnings per common share	$172,173	90,865	$1.89
Year ended December 31, 2001			
Basic earnings per common share	$ 50,809	64,615	$0.79
Effect of dilutive stock options	—	2,270	
Effect of preferred dividend	15,408	25,813	
Diluted earnings per common share	$ 66,217	92,698	$0.71

For 2003, 2002, and 2001, the number of stock options that were outstanding but not included in the computation of diluted earnings per common share because their exercise price was greater than the average market price of the common stock and, therefore anti-dilutive, was 66,250, 2,186,250 and 1,570,000, respectively.

Note Q — Unaudited Quarterly Data

Summarized quarterly financial data for 2003 and 2002 is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands, except per share data)			
Year ended December 31, 2003				
Revenues	$566,406	$553,260	$549,825	$558,659
Operating profit	96,291	97,238	87,502	88,991
Net earnings	50,959	35,300	43,738	51,499
Basic earnings per common share	0.58	0.40	0.54	0.64
Diluted earnings per common share	0.57	0.39	0.52	0.62

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands, except per share data)			
Year ended December 31, 2002				
Revenues	$498,610	$494,660	$494,561	$522,213
Operating profit	88,296	88,240	84,087	89,826
Net earnings	43,563	41,943	41,449	45,218
Basic earnings per common share	0.63	0.59	0.50	0.52
Diluted earnings per common share	0.48	0.46	0.46	0.50

Note R — Related Party Transactions

On April 25, 2003, Rent-A-Center announced that it entered into an agreement with Apollo which provided for the repurchase of a number of shares of its common stock sufficient to reduce Apollo’s aggregate record ownership to 19.00% after consummation of the Company’s planned tender offer at the price per share paid in the tender offer. On July 11, 2003, Rent-A-Center closed the Apollo transaction and purchased 774,547 shares of its common stock (on a pre-split basis) at $73 per share (on a pre-split basis) for approximately $56.5 million. As contemplated by the Apollo agreement, Apollo also exchanged their shares of Series A preferred stock for shares of Series C preferred stock.

On August 1, 2003, Rent-A-Center agreed to purchase under the common stock repurchase program an aggregate of 440,000 shares of its common stock (on a pre-split basis) at $73 per share (on a pre-split basis), 200,000 of which were repurchased from Mark E. Speese, Rent-A-Center’s Chairman of the Board and Chief Executive Officer, 200,000 of which were repurchased from Apollo, and 40,000 of which were repurchased from Mitchell E. Fadel, Rent-A-Center’s President and Chief Operating Officer.

Note S — Subsequent Event

On February 4, 2004, the Company announced that it entered into a definitive agreement to acquire Rainbow Rentals, Inc., a rent-to-own operator, for $16.00 in cash per share of Rainbow common stock. The acquisition consists of 124 rent-to-own stores in 15 states. The agreement also provides that each holder of options of Rainbow will receive an amount equal to the difference between $16.00 and the exercise price of the option. The Company intends to fund the acquisition primarily with cash on hand. The acquisition, which is expected to be completed in the second quarter of 2004, is conditioned upon customary closing conditions for a transaction of this nature, including the receipt of requisite regulatory approval and approval of Rainbow’s shareholders.

On March 5, 2004, the Company completed the purchase of five Canadian rent-to-own stores for approximately $3.2 million Canadian dollars ($2.4 million U.S. dollars). The five stores are located in the cities of Edmonton and Calgary in the province of Alberta. This acquisition marks the commencement of the Company’s business operations in Canada.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report. Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2003. No change in internal controls over financial reporting occurred during the quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

PART III

Item 10. ***Directors and Executive Officers of the Registrant(*)***

Item 11. ***Executive Compensation(*)***

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters(*)***

Item 13. ***Certain Relationships and Related Transactions(*)***

Item 14. ***Principal Accountant Fees and Services(*)***

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* The information required by Items 10, 11, 12, 13 and 14 is or will be set forth in the definitive proxy statement relating to the 2004 Annual Meeting of Stockholders of Rent-A-Center, Inc., which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. This definitive proxy statement relates to a meeting of stockholders involving the election of directors and the portions therefrom required to be set forth in this Form 10-K by Items 10, 11, 12, 13 and 14 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

Schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are either not required under the related instructions or inapplicable.

Current Reports on Form 8-K

Current Report on Form 8-K under Item 5 filed on December 18, 2003

Exhibits

See attached Exhibit Index, which index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

RENT-A-CENTER, INC.

By: /s/ ROBERT D. DAVIS

Robert D. Davis
Senior Vice President — Finance,
Treasurer and Chief Financial Officer

Date: July 30, 2004

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INDEX TO EXHIBITS

Exhibit Number		Exhibit Description
2.1(1)	—	Asset Purchase Agreement, dated as of December 17, 2002, by and among Rent-A-Center East, Inc. and Rent-Way, Inc., Rent-Way of Michigan, Inc. and Rent-Way of TTIG, L.P. (Pursuant to the rules of the SEC, the schedules and exhibits have been omitted. Upon the request of the SEC, Rent-A-Center, Inc. will supplementally supply such schedules and exhibits to the SEC.)
2.2(2)	—	Letter Agreement, dated December 31, 2002
2.3(3)	—	Letter Agreement, dated January 7, 2003
2.4(4)	—	Letter Agreement, dated February 7, 2003
2.5(5)	—	Letter Agreement, dated February 10, 2003 (Pursuant to the rules of the SEC, the exhibit has been omitted. Upon the request of the SEC, Rent-A-Center will supplementally supply such exhibit to the SEC.)
2.6(6)	—	Letter Agreement, dated March 10, 2003 (Pursuant to the rules of the SEC, the exhibit has been omitted. Upon the request of the SEC, Rent-A-Center will supplementally supply such exhibit to the SEC.)
2.7*	—	Agreement and Plan of Merger, dated as of February 4, 2004, by and between Rent-A-Center, Inc., Eagle Acquisition Sub, Inc. and Rainbow Rentals, Inc. (Pursuant to the rules of the SEC, the schedules and exhibits have been omitted. Upon the request of the SEC, Rent-A-Center, Inc. will supplementally supply such schedules and exhibits to the SEC.)
3.1(7)	—	Certificate of Incorporation of Rent-A-Center, Inc., as amended
3.2(8)	—	Amended and Restated Bylaws of Rent-A-Center, Inc.
4.1(9)	—	Form of Certificate evidencing Common Stock
4.2(10)	—	Certificate of Elimination of Series A Preferred Stock
4.3(11)	—	Certificate of Designations, Preferences and relative Rights and Limitations of Series C Preferred Stock of Rent-A-Center, Inc.
4.4(12)	—	Form of Certificate evidencing Series C Preferred Stock
4.5(13)	—	Indenture, dated as of May 6, 2003, by and among Rent-A-Center, Inc., as Issuer, Rent-A-Center East, Inc., ColorTyme, Inc., Rent-A-Center West, Inc., Get It Now, LLC, Rent-A-Center Texas, L.P. and Rent-A-Center Texas, L.L.C., as Guarantors, and The Bank of New York, as Trustee
4.6*	—	First Supplemental Indenture, dated as of December 4, 2003, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee
4.7(14)	—	Form of 2003 Exchange Note
10.1(15)†	—	Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan
10.2(16)	—	Amended and Restated Credit Agreement, dated as of August 5, 1998, as amended and restated as of December 31, 2002, among Rent-A-Center, Inc., Rent-A-Center East, Inc., Comerica Bank, as Documentation Agent, Bank of America NA, as Syndication Agent, and JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank), as Administrative Agent
10.3(17)	—	First Amendment, dated as of April 22, 2003, to the Amended and Restated Credit Agreement, dated as of August 5, 1998, as amended and restated as of December 31, 2002, among Rent-A-Center, Inc., Rent-A-Center East, Inc., Comerica Bank, as Documentation Agent, Bank of America NA, as Syndication Agent, and JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank), as Administrative Agent
10.4(18)	—	Credit Agreement, dated as of May 28, 2003, among Rent-A-Center, Inc., Morgan Stanley Senior Funding Inc., as Documentation Agent, JPMorgan Chase Bank and Bear, Stearns & Co. Inc., each as Syndication Agent, and Lehman Commercial Paper Inc., as Administrative Agent

Exhibit Number		Exhibit Description
10.5(19)	—	Guarantee and Collateral Agreement, dated as of August 5, 1998, as amended and restated as of December 31, 2002, made by Rent-A-Center, Inc., Rent-A-Center East, Inc. and certain of its Subsidiaries in favor of JP Morgan Chase Bank (formerly known as The Chase Manhattan Bank), as Administrative Agent
10.6(20)	—	Guarantee and Collateral Agreement, dated as of May 28, 2003, made by Rent-A-Center, Inc., Rent-A-Center East, Inc. and certain of its Subsidiaries in favor of Lehman Commercial Paper Inc., as Administrative Agent
10.7*	—	First Amendment, dated as of May 28, 2003, to the Credit Agreement and the Guarantee and Collateral Agreement, both dated as of May 28, 2003, among Rent-A-Center, Inc., Rent-A-Center East, Inc., ColorTyme, Inc., Rent-A-Center West, Inc., Remco America, Inc., Get It Now LLC, Rent-A-Center Texas, L.P., Rent-A-Center Texas, L.L.C. and Lehman Commercial Paper, Inc., as administrative agent.
10.8(21)	—	Second Amended and Restated Stockholders Agreement, dated as of August 5, 2002, by and among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., Mark E. Speese, Rent-A-Center, Inc., and certain other persons
10.9(22)	—	Third Amended and Restated Stockholders Agreement, dated as of December 31, 2002, by and among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., Mark E. Speese, Rent-A-Center, Inc., and certain other persons
10.10(23)	—	Fourth Amended and Restated Stockholders Agreement, dated as of July 11, 2003, by and among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P., Mark E. Speese, Rent-A-Center, Inc., and certain other persons
10.11(24)	—	Registration Rights Agreement, dated August 5, 1998, by and between Renters Choice, Inc., Apollo Investment Fund IV, L.P., and Apollo Overseas Partners IV, L.P.
10.12(25)	—	Second Amendment to Registration Rights Agreement, dated as of August 5, 2002, by and among Rent-A-Center, Inc., Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P.
10.13(26)	—	Third Amendment to Registration Rights Agreement, dated as of December 31, 2002, by and among Rent-A-Center, Inc., Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P.
10.14(27)	—	Fourth Amendment to Registration Rights Agreement, dated as of July 11, 2003, by and between Rent-A-Center, Inc., Apollo Investment Fund IV, L.P., and Apollo Overseas Partners IV, L.P.
10.15(28)	—	Registration Rights Agreement, dated as of May 6, 2003, by and among Rent-A-Center, Inc., as Issuer, Rent-A-Center East, Inc., ColorTyme, Inc., Rent-A-Center West, Inc., Get It Now, LLC, Rent-A-Center Texas, L.P. and Rent-A-Center Texas, L.L.C., as Guarantors, and Lehman Commercial Paper Inc., J.P. Morgan Securities, Inc., Morgan Stanley & Co. Incorporated, Bear, Stearns & Co. Inc., UBS Warburg LLC and Wachovia Securities, Inc., as Initial Purchasers
10.16(29)	—	Amended and Restated Franchisee Financing Agreement, dated March 27, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
10.17(30)	—	Franchisee Financing Agreement, dated April 30, 2002, but effective as of June 28, 2002, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc.
10.18(31)	—	First Amendment to Franchisee Financing Agreement, dated July 23, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
10.19(32)	—	Second Amendment to Franchisee Financing Agreement, dated September 30, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.
10.20(33)	—	Third Amendment to Franchisee Financing Agreement, dated March 24, 2003, but effective as of December 31, 2002, by and between Textron Financial Corporation, ColorTyme, Inc. and Rent-A-Center, Inc.

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Exhibit Number		Exhibit Description
10.21(34)	—	Supplemental Letter Agreement to Franchisee Financing Amendment, dated May 26, 2003, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc.
10.22(35)	—	Amended and Restated Franchise Financing Agreement, dated October 1, 2003, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc.
10.23*	—	First Amendment to Amended and Restated Franchisee Financing Agreement, dated December 15, 2003, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc.
10.24(36)	—	Purchase Agreement, dated May 1, 2003, among Rent-A-Center, Inc., Rent-A-Center East, Inc., ColorTyme, Inc., Rent-A-Center West, Inc., Get It Now, LLC, Rent-A-Center Texas, L.P., Rent-A-Center Texas, L.L.C., Lehman Brothers Inc., J.P. Morgan Securities, Inc., Morgan Stanley & Co. Incorporated, Bear, Stearns & Co. Inc., UBS Warburg LLC and Wachovia Securities, Inc. (Pursuant to the rules of the SEC, the schedules and annexes have been omitted. Upon the request of the SEC, Rent-A-Center, Inc. will supplementally supply such schedules and annexes to the SEC.)
10.25(37)	—	Stock Purchase and Exchange Agreement, dated April 25, 2003, by and among Apollo Investment Fund IV, L.P., Apollo Overseas Partners IV, L.P. and Rent-A-Center, Inc.
21.1*	—	Subsidiaries of Rent-A-Center, Inc.
23.1*	—	Consent of Grant Thornton LLP
31.1*	—	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Mark E. Speese
31.2*	—	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis
32.1*	—	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Mark E. Speese
32.2*	—	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis

* Filed herewith.

† Management contract or compensatory plan or arrangement

(1) Incorporated herein by reference to Exhibit 2.2 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(2) Incorporated herein by reference to Exhibit 2.3 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(3) Incorporated herein by reference to Exhibit 2.4 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(4) Incorporated herein by reference to Exhibit 2.5 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(5) Incorporated herein by reference to Exhibit 2.6 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(6) Incorporated herein by reference to Exhibit 2.7 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(7) Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002

(8) Incorporated herein by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K dated as of December 31, 2002

(9) Incorporated herein by reference to Exhibit 4.1 to the registrant's Registration Statement on Form S-4 filed on January 11, 1999

(10) Incorporated herein by reference to Exhibit 4.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003

(11) Incorporated herein by reference to Exhibit 4.4 to the registrant's Registration Statement on Form S-4 filed July 11, 2003

(12) Incorporated herein by reference to Exhibit 4.5 to the registrant's Registration Statement on Form S-4 filed July 11, 2003

(13) Incorporated herein by reference to Exhibit 4.9 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003

(14) Incorporated herein by reference to Exhibit 4.11 to the registrant's Registration Statement on Form S-4 filed July 11, 2003

(15) Incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003

(16) Incorporated herein by reference to Exhibit 10.2 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(17) Incorporated herein by reference to Exhibit 10.3 to the registrant's Quarterly Report on form 10-Q for the quarter ended March 31, 2003

(18) Incorporated herein by reference to Exhibit 10.4 to the registrant's Registration Statement on Form S-4 filed July 11, 2003

(19) Incorporated herein by reference to Exhibit 10.3 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(20) Incorporated herein by reference to Exhibit 10.6 to the registrant's Registration Statement on Form S-4 filed July 11, 2003

(21) Incorporated herein by reference to Exhibit 10.8 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002

(22) Incorporated herein by reference to Exhibit 10.6 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(23) Incorporated herein by reference to Exhibit 10.15 to the registrant's Registration Statement on Form S-4 filed July 11, 2003

(24) Incorporated herein by reference to Exhibit 10.22 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998

(25) Incorporated herein by reference to Exhibit 10.10 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002

(26) Incorporated herein by reference to Exhibit 10.9 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(27) Incorporated herein by reference to Exhibit 10.10 to the registrant's Registration Statement on Form S-4 filed July 11, 2003

(28) Incorporated herein by reference to Exhibit 10.19 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003

(29) Incorporated herein by reference to Exhibit 10.13 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002

(30) Incorporated herein by reference to Exhibit 10.14 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002

(31) Incorporated herein by reference to Exhibit 10.15 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002

(32) Incorporated herein by reference to Exhibit 10.14 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002

(33) Incorporated herein by reference to Exhibit 10.22 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003

(34) Incorporated herein by reference to Exhibit 10.16 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2002

(35) Incorporated herein by reference to Exhibit 10.23 to the registrant's Registration Statement on Form S-4 filed July 11, 2003

(36) Incorporated herein by reference to Exhibit 10.18 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003

(37) Incorporated herein by reference to Exhibit 99(d)(1) to the registrant's Schedule TO filed on April 28, 2003

Exhibit 2.7

AGREEMENT AND PLAN OF MERGER

Dated as of February 4, 2004

by and between

RENT-A-CENTER, INC.,

EAGLE ACQUISITION SUB, INC.

and

RAINBOW RENTALS, INC.

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of February 4, 2004, among RAINBOW RENTALS, INC., an Ohio corporation (the "Company"), RENT-A-CENTER, INC., a Delaware corporation ("Acquiror"), and EAGLE ACQUISITION SUB, INC., an Ohio corporation, and an indirect wholly owned subsidiary of Acquiror ("Merger Sub").

RECITALS

A. The respective Boards of Directors of the Company, Acquiror and Merger Sub have approved the merger of Merger Sub with and into the Company (the "Merger"), upon the terms and subject to the conditions set forth in this Agreement, whereby each issued and outstanding common share, without par value, of the Company ("Company Common Stock"), other than (i) Dissenting Shares, (ii) any Company Common Stock held in the treasury of the Company, or (iii) owned by Acquiror or an Affiliate of Acquiror will be converted into the right to receive the Merger Consideration;

B. The respective Boards of Directors of the Company, Acquiror and Merger Sub have each determined that the Merger and the other transactions contemplated hereby are consistent with, and in furtherance of, their respective business strategies and goals;

C. The Company, Acquiror and Merger Sub desire to make certain representations, warranties, covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger;

D. The Board of Directors of the Company has resolved to recommend the Merger to the holders of the Company Common Stock, has determined that the consideration to be paid for each share of Company Common Stock in the Merger is fair to the holders of such Company Common Stock, and has resolved to recommend that the holders of such Company Common Stock accept the Merger Consideration and approve this Agreement and each of the transactions contemplated hereby upon the terms and subject to the conditions set forth herein; and

E. Concurrently with the execution and delivery of this Agreement, as a condition and inducement to Acquiror's and Merger Sub's willingness to enter into this Agreement, certain shareholders of the Company (the "Major Shareholders") have entered into a Voting Agreement, dated as of the date of this Agreement, in the form attached hereto as Exhibit A (the "Voting Agreement") pursuant to which each such Major Shareholder has, among other things, agreed to vote the Company Common Stock held by such Major Shareholder, the number of which shares is set forth on the signature page of the Voting Agreement, for the Merger.

Accordingly, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows. Capitalized terms used herein shall have the meanings referred to or set forth in Appendix A hereto.

ARTICLE 1
THE MERGER

1.1 The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Ohio Statutes, Merger Sub shall be merged with and into the Company at the Effective Time and the separate corporate existence of Merger Sub shall thereupon cease. Following the Effective Time, the Company shall be the surviving corporation (the "Surviving Corporation").

1.2 Closing. The closing of the Merger (the "Closing") will take place at 10:00 a.m. on a date to be specified by the parties, which shall be no later than the second Business Day after satisfaction or waiver (subject to applicable law) of the conditions (excluding conditions that, by their terms, cannot be satisfied until the Closing) set forth in **Article 6**, unless another time or date is agreed to by the parties hereto (the "Closing Date"). The Closing will be held at the offices of Kahn Kleinman, a legal professional association, 2600 Erieview Tower, 1301 East Ninth Street, Cleveland, Ohio 44114, or such other location as the parties hereto shall agree to in writing.

1.3 Effective Time. Subject to the provisions of this Agreement, as soon as practicable after the satisfaction or, if permissible, the waiver of the conditions set forth in **Article 6**, the parties shall file a Certificate of Merger (the "Certificate of Merger") in such form as is required by and executed in accordance with the relevant provisions of the Ohio Statutes. The Merger shall become effective at such time as the Certificate of Merger is duly filed with the Secretary of State of the State of Ohio, or at such later date or time as the Company and Acquiror shall agree and specify in the Certificate of Merger (the date and time the Merger becomes effective being the "Effective Time").

1.4 Effects of the Merger. The Merger shall have the effects set forth in the Ohio Statutes. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of the Company and Merger Sub shall be vested in the Surviving Corporation, and all debts, liabilities and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

1.5 Articles of Incorporation and Code of Regulations. Subject to **Section 5.4**, the articles of incorporation and code of regulations of Merger Sub shall be the articles of incorporation and code of regulations, respectively, of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law; provided, however, that the name of the Surviving Corporation shall be "Rainbow Rentals, Inc."

1.6 Directors and Officers of the Surviving Corporation. The directors of Merger Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation each to hold office in accordance with the articles of incorporation and code of regulations of the Surviving Corporation, and the officers of the Merger Sub immediately prior to the Effective Time shall be the officers of the Surviving Corporation, in each case, until the earlier of their death, resignation or removal or until their respective successors are duly elected and qualified, as the case may be.

ARTICLE 2
CANCELLATION AND CONVERSION OF SHARES; CONSIDERATION

2.1 Effect on Capital Stock. As of the Effective Time, by virtue of the Merger and without any action on the part of the holder of any shares of capital stock of the Company or Merger Sub:

(a) Cancellation of Treasury Stock and Acquiror-Owned Stock. Each share of Company Common Stock that is (i) owned by Acquiror or an Affiliate of Acquiror or (ii) held in the treasury of the Company shall automatically be canceled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor.

(b) Conversion of Company Common Stock. Subject to **Section 2.4** (Dissenters' Rights), each issued and outstanding share of Company Common Stock shall be converted into the right to receive $16.00 in cash (the "Merger Consideration").

(c) Capital Stock of Merger Sub. Each share of common stock, no par value, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into one share of common stock of the Surviving Corporation.

(d) Cancellation and Retirement of Company Common Stock. All shares of Company Common Stock (other than shares to be canceled in accordance with **Section 2.1(a)** and Dissenting Shares) shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a certificate representing any such shares of Company Common Stock shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration, without interest, upon surrender of such certificate in accordance with **Section 2.3**.

2.2 Company Stock Plans. As of the Effective Time, each outstanding Company Stock Option, vested or unvested, exercisable or non-exercisable, shall be extinguished and converted into the right to receive a cash amount equal to the product of (x) the excess, if any, of the Merger Consideration, minus the exercise price, if any, of each such Company Stock Option (with respect to each Company Stock Option, the "Option Shares Merger Consideration"), multiplied by (y) the aggregate number of shares of the Company Common Stock issuable upon the exercise in full of such Company Stock Option at the Effective Time. No cash payment will be due in respect of such Company Stock Option or its termination if the exercise price of such Company Stock Option is equal to or exceeds the Merger Consideration. The Company shall take all actions necessary to ensure that the Company's Stock Plans shall terminate as of the Effective Time and the provisions in any other plan, program or arrangement providing for the issuance or grant of any other interest in respect of the capital stock of the Company shall be terminated as of the Effective Time. In addition, the Company shall take all action necessary to ensure that following the Effective Time no participant in the Company Stock Plans or other plans, programs or arrangements (each, an "Eligible Option Holder") shall have any right thereunder to acquire or participate in changes in value of equity securities of the Company, the Surviving Corporation, Merger Sub or any of their respective subsidiaries and to terminate all such plans effective as of the Effective Time.

2.3 Exchange of Certificates; (a) Exchange Agent. The Parties agree that Mellon Investor Services, LLC, or such other bank or trust company which the Parties may designate, shall act as agent (the “Exchange Agent”) of Acquiror for purposes of, among other things, mailing and receiving transmittal letters and distributing to the Company shareholders or holders of Company Stock Options the proceeds payable to such holders under **Section 2.1(b)** (Conversion of Company Common Stock) or **Section 2.2** (Company Stock Plans) above. Immediately prior to the Effective Time, Acquiror or Merger Sub shall deposit, or shall cause to be deposited, with or for the account of the Exchange Agent, for the benefit of the holders of Certificates (as defined herein) and the Eligible Option Holders cash in an aggregate amount (the “Exchange Fund”) equal to the sum of (x) the product of (A) the Merger Consideration multiplied by (B) the number of shares of Company Common Stock issued and outstanding at the Effective Time plus (y) the aggregate Option Shares Merger Consideration for all Eligible Option Holders as of the Effective Time (the “Aggregate Merger Consideration”).

(b) Exchange Procedures. As soon as reasonably practicable after the Effective Time, Acquiror shall direct the Exchange Agent to mail or deliver to each holder of record of a stock certificate or certificates which immediately prior to the Effective Time represented outstanding shares of Company Common Stock (the “Certificates”) whose shares were converted into the right to receive the Merger Consideration pursuant to **Section 2.1(b)**, or (ii) each Eligible Option Holder entitled to receive his or her Option Shares Merger Consideration pursuant to **Section 2.2**, as applicable, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as the Company and Acquiror may reasonably specify) and (ii) instructions for use in surrendering the Certificates or evidence of Company Stock Options in exchange for the Merger Consideration or Option Shares Merger Consideration, as applicable. Upon surrender of a Certificate for cancellation or evidence of Company Stock Options to the Exchange Agent, together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by Acquiror, the Surviving Corporation or the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor a check or wire transfer of immediately available funds representing the amount of cash such holder has the right to receive pursuant to the provisions of this **Article 2**, and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Company Common Stock which is not registered in the transfer records of the Company, a new Certificate representing the proper number of shares of Company Common Stock may be issued to a Person other than the Person in whose name the Certificate so surrendered is registered if such Certificate is properly endorsed or otherwise in proper form for transfer and the Person requesting such issuance pays any transfer or other taxes required by reason of the payment of the Merger Consideration to a Person other than the registered holder of such Certificate or establishes to the satisfaction of Acquiror that such tax has been paid or is not applicable. Until surrendered as contemplated by this **Section 2.3**, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the Merger Consideration, that the holder thereof has the right to receive in respect of such Certificate pursuant to the provisions of this **Article 2**. No interest shall be paid or will accrue on any cash payable to holders of Certificates pursuant to the provisions of this **Article 2**.

(c) No Further Ownership Rights in Company Common Stock. The Merger Consideration or Option Shares Merger Consideration, as applicable, shall be deemed to have been paid in full satisfaction of all rights pertaining to the shares of Company Common Stock, theretofore represented by such Certificates or evidence of Company Stock Options, as applicable, subject, however, to Acquiror's obligation to pay the Aggregate Merger Consideration, and there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of the shares of Company Common Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates or evidence of Company Stock Options, as applicable, are presented to the Surviving Corporation or the Exchange Agent for any reason, they shall be canceled and exchanged as provided in this **Article 2**, except as otherwise provided in **Section 2.3(d)** or by law.

(d) Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed (including interest thereon) to the holders of the Certificates or Eligible Option Holders for six months after the Effective Time shall to the extent permitted by law, become the property of the Surviving Corporation. Any holders of the Certificates or Eligible Option Holders, as applicable, who have not theretofore surrendered their respective Certificates or evidence of Company Stock Options and otherwise complied with this **Article 2** shall thereafter look only to the Surviving Corporation, and only as a general creditor, for payment of their claim for Merger Consideration or Option Shares Merger Consideration, as applicable, and without interest. If any Certificates or evidence of Company Stock Options shall not have been surrendered prior to five years after the Effective Time (or immediately prior to such earlier date on which any payment in respect thereof would otherwise escheat to or become the property of any Governmental Entity), the payment in respect of such shall, to the extent permitted by applicable law, become the property of the Surviving Corporation, free and clear of all claims or interest of any person previously entitled thereto.

(e) No Liability. None of the Parties shall be liable to any Person in respect of any Merger Consideration from the Exchange Fund, delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(f) Investment of Exchange Fund. The Exchange Agent shall invest the Exchange Fund, as directed by the Surviving Corporation, in (i) direct obligations of the United States of America, (ii) obligations for which the full faith and credit of the United States of America is pledged to provide for the payment of principal and interest, (iii) commercial paper rated the highest quality by either Moody's Investors Services, Inc. or Standard & Poor's Corporation, or (iv) certificates of deposit, bank repurchase agreements or bankers acceptances, of commercial banks with capital exceeding $1 billion, and any net earnings with respect thereto shall be paid to the Surviving Corporation as and when requested by the Surviving Corporation; provided, that any such investment or any such payment of earnings shall not delay the receipt by holders of Certificates or evidence of Company Stock Options of the Merger Consideration or Option Shares Merger Consideration, as the case may be, or otherwise impair such holders' respective rights hereunder.

(g) Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon (i) the delivery of a Letter of Transmittal stating as such, (ii) the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed, (iii) evidence that such

Person is the beneficial owner of the Certificate claimed to be lost, stolen or destroyed, and, (iv) if required by the Surviving Corporation, the posting by such Person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent shall issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration.

(h) Withholding Rights. The Exchange Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of Company Common Stock or Eligible Option Holder such amounts as the Exchange Agent, Surviving Corporation, or Acquiror is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax law, including, without limitation, withholdings required in connection with payments with respect to Company Stock Options held by employees of the Company. To the extent that amounts are so withheld by the Exchange Agent, Surviving Corporation, or Acquiror, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder in respect of which such deduction and withholding was made.

2.4 Dissenters' Rights.

(a) Notwithstanding any provision of this Agreement to the contrary, any shares of Company Common Stock outstanding immediately prior to the Effective Time and held by persons who shall have properly demanded payment of the fair cash value of such shares of Company Common Stock in accordance with Section 1701.85 of the Ohio Statutes (collectively, the "Dissenting Shares") shall not be converted into or represent the right to receive the Merger Consideration as provided in **Section 2.1(b)**. Such persons shall be entitled only to such rights as are granted under Section 1701.85 of the Ohio Statutes, except that all Dissenting Shares held by persons who fail to perfect or who effectively withdraw or lose their rights as dissenting shareholders in respect of such shares under 1701.85 of the Ohio Statutes shall thereupon be deemed to have been converted into, as of the Effective Time, the right to receive the applicable portion of the Merger Consideration, without interest thereon, upon surrender of the Certificate therefor in the manner provided in **Section 2.3**.

(b) The Company or the Surviving Corporation shall give Acquiror (i) prompt written notice of any demands by dissenting shareholders received by the Company or the Surviving Corporation, withdrawals of such demands and any other instruments served on the Company or the Surviving Corporation and any material correspondence received by the Surviving Corporation or the Company in connection with such demands and (ii) after the Effective Date, the right to direct in all negotiations and proceedings with respect to such demands and prior to the Effective Date to participate in such negotiations and proceedings. Neither the Company nor the Surviving Corporation shall, except with the prior written consent of Acquiror, make any payment with respect to any demands for appraisal or offer to settle or settle any such demands. Any funds paid to dissenting shareholders shall be paid out of the Exchange Fund to the extent such payment is equal to or less than the Merger Consideration and, if greater, the excess shall be paid out of the assets of the Surviving Corporation.

2.5 Certain Adjustments. If after the date hereof and on or prior to the Effective Time, the outstanding shares of Company Common Stock shall be changed into a different number of shares by reason of any reclassification, recapitalization, split-up, combination or exchange of shares, or any dividend payable in stock or other securities shall be declared thereon with a record date within such period, or any similar event shall occur, the Merger Consideration shall be adjusted accordingly to provide to the holders of Company Common Stock the same economic effect as contemplated by this Agreement prior to such reclassification, recapitalization, split-up, combination, exchange or dividend or similar event.

2.6 Further Assurances. At and after the Effective Time, the officers and directors of the Surviving Corporation will be authorized, (i) to execute and deliver, in the name and on behalf of the Company or Merger Sub, any deeds, bills of sale, assignments or assurances and (ii) to take and do, in the name and on behalf of the Company or Merger Sub, any other actions and things to vest, perfect or confirm of record in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. The Company has set forth information in the Company Disclosure Schedule delivered by the Company to Acquiror simultaneously with the execution of this Agreement (the “Company Disclosure Schedule”) in a section that corresponds to the section of this Agreement to which it relates. Such information shall be deemed disclosed with respect to any other section of this **Article 3** to which the matter relates, so long as the applicability of such matter would be clearly evident on the face of such disclosure. The Company hereby represents and warrants to Acquiror and Merger Sub as follows:

(a) Organization, Standing and Corporate Power. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Ohio and has the requisite corporate power and authority to carry on its business as now being conducted. The Company is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, except for those jurisdictions where the failure to be so qualified or licensed or to be in good standing individually or in the aggregate would not have a Material Adverse Effect. **Section 3.1(a)** of the Company Disclosure Schedules sets forth each jurisdiction in which the Company is qualified to do business. The Company has made available to Acquiror prior to the execution of this Agreement complete and correct copies of its charter documents, each as amended to date.

(b) Subsidiaries. The Company has no Subsidiaries and owns no capital stock or other voting or non-voting equity interest or debt security of or in any other entity.

(c) Capital Structure. The authorized capital stock of the Company consists of (i) 10,000,000 shares of Company Common Stock and (ii) 2,000,000 shares of preferred stock (“Company Preferred Stock”). At the date hereof (the “Stock Reference Date”): (i) 5,932,653 shares of Company Common Stock are issued and outstanding; (ii) 463,291 shares of Company Common Stock are held by the Company in its treasury; and (iii) 593,082 shares of Company Common Stock are subject to outstanding employee, consultants and directors stock options to purchase Company Common Stock (collectively, the "Company Stock Options") granted pursuant to the Company's incentive plans (collectively, the "Company Stock Plans"), all such stock options are set forth on **Section 3.1(c)** of the Company Disclosure Schedule. No shares of the Company Preferred Stock have been issued or are outstanding. Other than the Company Stock Options, no securities of the Company convertible into or exchangeable or exercisable for shares of capital stock or voting securities are outstanding as of the Stock Reference Date, and no warrants, calls, options or other rights to acquire shares of capital stock or voting securities were outstanding as of the Stock Reference Date. All outstanding shares of Common Stock of the Company are, and all shares which may be issued will be, when issued, duly authorized, validly issued, fully paid and nonassessable and were not issued, and will not be issued, in violation of any preemptive or similar rights of any Persons, and were issued in accordance with the registration and qualification requirements of the Securities Act and all Legal Requirements applicable to the offer and sale of securities or pursuant to valid exemptions therefrom. Except for the Company Stock Options and the issued and outstanding shares and treasury shares described above, there are not issued, reserved for issuance or outstanding (A) any shares of capital stock or other voting securities of the Company, (B) any securities of the Company convertible into or exchangeable or exercisable for shares of capital stock or voting securities of the Company or (C) any warrants, calls, options or other rights to acquire from the Company any capital stock or voting securities of the Company. There are no outstanding obligations of the Company to repurchase, redeem or otherwise acquire any such securities. The Company is not a party to any voting agreement with respect to the voting of any such securities. There are no outstanding obligations of the Company to register under the Securities Act any shares of its capital stock or to include in any registration of its capital stock shares held by others.

(d) Authority; No Conflict. The Company has all requisite power and authority to enter into this Agreement, and each instrument required hereby to be executed, and delivered by it at the Closing, to perform its obligations hereunder and thereunder, and, subject to the Company Shareholder Approval, to consummate the transactions contemplated thereby and hereby. The execution and delivery by the Company of this Agreement and each instrument required hereby to be executed and delivered by it at the Closing, and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company, subject to the Company Shareholder Approval. This Agreement has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery by Acquiror and Merger Sub, constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting the rights of creditors and to general principles of equity. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated by this Agreement and compliance with the provisions of this Agreement will not, conflict with, or result in any violation of, or default (with or without notice or passage of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a benefit under, or result in the creation of any Lien upon any of the properties or assets of the Company under (i) the articles of incorporation or code of regulations of the Company, (ii) any loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit, concession, franchise, license or similar authorization applicable to the Company or its properties or assets or (iii) subject to the governmental filings and other matters referred to in **Section 3.1(e)**, any Legal Requirement or regulation applicable to the Company or its properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, defaults, rights, losses or Liens that individually or in the aggregate would not (x) have, or be reasonably likely to have, a Material Adverse Effect or (y) reasonably be expected to materially impair or delay the ability of the Company to perform its obligations under this Agreement.

(e) Consents. Except as set forth in **Section 3.1(e)** of the Company Disclosure Schedule, the Company Shareholder Approval, and the authorizations of Governmental Entities as specifically set forth below, no Consent or approval of any third Person is required in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby. No consent, approval, order or authorization of, action by or in respect of, or registration, declaration or filing with, any federal, state, local or foreign government, any court, administrative, regulatory or other governmental agency, commission or authority or any non-governmental U.S. or foreign self-regulatory agency, commission or authority or any arbitral tribunal (each, a “Governmental Entity”) or other Legal Requirement is required by the Company in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby, except for: (1) the filing with the SEC of (A) a proxy statement relating to the Company Shareholders Meeting (the “Proxy Statement”), and (B) such reports under Sections 13(a), 13(d), 13(e), 15(d) or 16(a) of the Exchange Act, as may be required in connection with this Agreement and the transactions contemplated hereby; (2) the filing of the Certificate of Merger with the Secretary of State of the State of Ohio; (3) the filing of a pre-merger notification and report form by the Company under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (“HSR Act”); and (4) such filings, consents, approvals, orders or authorizations the failure of which to be made or obtained individually or in the aggregate would not have or reasonably be expected to have, a Material Adverse Effect.

(f) Reports; Undisclosed Liabilities; Books and Records/Internal Controls. The Company has timely filed all required reports, schedules, forms, statements and other documents (including exhibits and all other information incorporated therein) with the SEC since January 1, 1999 (the “Company SEC Documents”) and has filed all material reports, schedules, forms, statements, and other documents with all other Government Entities since January 1, 1999. As of their respective dates, the Company SEC Documents complied in all material respects with the requirements of the Securities Act, or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such Company SEC Documents, and none of the Company SEC Documents when filed, declared effective or mailed (as the case may be) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company (including the related schedules and notes thereto) included in the Company SEC Documents (or incorporated therein by reference) comply, as of their respective dates of filing with the SEC, in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present in all material respects the financial position of the Company as of the dates thereof and the consolidated statement of operations, cash flows and shareholders' equity for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). The Company has no liabilities or obligations of any nature (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated and whether due or to become due) except (A) as reflected in the September 30, 2003 financial statements or in the notes thereto; (B) for liabilities incurred in connection with this Agreement or the transactions contemplated hereby which are on **Schedule 3.1(f)(i)** of the Company Disclosure Schedule; (C) liabilities or obligations incurred in the ordinary course of business from September 30, 2003 to the date hereof; (D) liabilities or obligations incurred as permitted pursuant to **Section 4.1** hereof; or (E) which, in the aggregate, do not exceed $250,000.

There are no significant deficiencies or material weaknesses in the Company's internal controls. The Company maintains accurate books and records reflecting its assets and liabilities and maintains proper and adequate internal accounting controls which provide assurance that (i) all transactions are executed with management's authorization (ii) transactions are recorded as necessary to permit preparation of the financial statements of the Company and to maintain accountability for the Company's assets; (iii) access to the Company's assets is permitted only in accordance with management's authorization; (iv) the reporting of the Company's assets is compared with existing assets at regular intervals; and (v) accounts and inventory are recorded accurately, and proper and adequate procedures are implemented to effect the collection thereof on a current and timely basis. The Company maintains disclosure controls and procedures required by Rule 13a-15 or 15d-15 under the Exchange Act; such controls and procedures are effective to ensure that all material information concerning the Company is made known on a timely basis to the individuals responsible for the preparation and execution of the Company's filings with the SEC and other public disclosure documents, including, without limitation, any certifications required to be filed by the Chief Executive Officer and the Chief Financial Officer of the Company. **Section 3.1(f)(ii)** of the Company Disclosure Schedule lists, and the Company has delivered to Acquiror copies of, all written descriptions of, and all policies, manuals and other documents promulgating, such disclosure controls and procedures.

(g) Company Proxy Materials. All of the information supplied by the Company for inclusion in the Definitive Proxy Statement referred to in **Section 5.1(a)**, will not, on the date the Definitive Proxy Statement is first mailed to the Company's shareholders, and the Definitive Proxy Statement, as then amended or supplemented, will not, on the date of the Company Shareholders Meeting referred to in **Section 5.1(b)** hereof, contain any statement which is false or misleading with respect to any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Notwithstanding the foregoing, the Company makes no representation or warranty regarding information furnished by Acquiror or Merger Sub for inclusion in the Definitive Proxy Statement (or any amendment or supplement thereto). The Definitive Proxy Statement will comply, with respect to information supplied or to be supplied in writing by or on behalf of the Company for inclusion in the Definitive Proxy Statement, in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the SEC thereunder.

(h) Absence of Certain Changes or Events. Since September 30, 2003, except for liabilities incurred in connection with this Agreement or the transactions contemplated hereby, or as disclosed in **Section 3.1(h)** of the Company Disclosure Schedules, the Company has conducted its business only in the ordinary course, and there has not been (1) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any of the Company's capital stock, (2) any split, combination or reclassification of any of the Company's capital stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of the Company's capital stock, except for issuances of Company Common Stock upon the exercise of Company Stock Options outstanding on September 30, 2003, (3) (A) any granting by the Company after September 30, 2003 to any current or former director, executive officer or other key employee of the Company of any increase in compensation, bonus or other benefits, except for normal increases in the ordinary course of business or as was required under any employment agreements in effect as of September 30, 2003, (B) any granting by the Company after September 30, 2003 to any such current or former director, executive officer or key employee of any increase in severance or termination pay, or (C) any entry by the Company after September 30, 2003 into, or any amendment of, any employment, deferred compensation, consulting, severance, termination or indemnification agreement with any such current or former director, executive officer or key employee, (4) except as required by a change in generally accepted accounting principles, any change in accounting methods, principles or practices by the Company materially affecting its assets, liabilities or business, (5) any tax election that individually or in the aggregate would reasonably be expected to have a Material Adverse Effect or any settlement or compromise of any material income tax liability, (6) any change in the business, assets, financial condition or results of operations of the Company or any other event which in any such case has had or could reasonably be expected to have a Material Adverse Effect, (7) any damage, destruction or loss affecting the assets of the Company, whether covered by insurance or not, having a Material Adverse Effect, (8) the entry into any agreement, commitment or transaction by the Company which is material to the Company, (9) any change in the terms and conditions of the Company Stock Plans, (10) any cancellation or compromise by the Company of any material debt or claim, except for adjustments made in the ordinary course of business which, either individually or in the aggregate, would not have a Material Adverse Effect, (11) any waiver or release by the Company of any right of any material value to the Company, (12) any revaluation by the Company of any asset (including, without limitation, any writing down of the value of inventory), other than in the ordinary course of business, (13) any transaction that if taken after the date hereof would constitute a violation of **Section 4.1** hereof, or (14) any agreement or commitment, whether in writing or otherwise, to take any action described in this **Section 3.1(h)**.

(i) Compliance With Applicable Laws; Litigation.

(i) The Company holds all permits, licenses, variances, exemptions, orders, registrations and approvals of all Governmental Entities which are required for the operation of the business of the Company (collectively, the "Company Permits"), except where the failure to have any such Company Permits individually or in the aggregate would not have a Material Adverse Effect. The Company is in compliance with the terms of the

Company Permits and all applicable Legal Requirements, except where the failure so to comply individually or in the aggregate would not have a Material Adverse Effect. The Company is, or will timely be in all material respects, in compliance with all current and proposed listing and corporate governance requirements of the Nasdaq Stock Market, and is in compliance in all material respects, and will continue to remain in compliance through the Closing, with all rules, regulations, and requirements of the Sarbanes-Oxley Act of 2002 and the SEC.

(ii) The Company has furnished Acquiror copies of (a) all attorney responses to the request of the independent auditors for the Company with respect to loss contingencies as of December 31, 2002 and to loss contingencies as of December 31, 2003 in connection with the Company's financial statements, and (b) a written list of legal and regulatory proceedings filed against the Company which are pending (including matters which are on appeal or have not been fully funded, and administrative matters that may be closed but with respect to which the applicable statute of limitations has not run) as of the date of this Agreement. There are no actions, suits, investigations, complaints or proceedings (including any proceedings in arbitration) pending (including matters which are on appeal or have not been fully funded, and administrative matters that may be closed but with respect to which the applicable statute of limitations has not run) or, to the Knowledge of the Company, threatened against the Company or any of its officers, directors, employees, agents, at law or in equity, in any court or before any Governmental Entity, including, without limitation, whistleblower claims, except actions, suits, investigations, complaints or proceedings that are set forth on **Section 3.1(i)(ii)** of the Company Disclosure Schedule. Except as set forth in **Section 3.1(i)(ii)** of the Company Disclosure Schedule, there are no actions, suits, investigations, complaints or proceedings (including any proceedings in arbitration) pending or, to the Knowledge of the Company, threatened against the Company, at law or in equity, in any court or before any Governmental Entity, by persons alleging violation of the provisions of the Rental Purchase Agreements, rent-to-own statutes or any other consumer protection law. None of the Company, its officers or employees, or to the Company's Knowledge, contractors, subcontractors or agents have knowingly, with the intent to retaliate, taken any action harmful to any person, including interference with the lawful employment or livelihood of such person, because such individual provided to a law enforcement officer or supervisor any truthful information relating to the commission or possible commission of any federal or state offense. Except as set forth in **Section 3.1(i)(ii)** of the Company Disclosure Schedule, there are no actions, suits, investigations, complaints or proceedings (including any proceedings in arbitration) pending or, to the Knowledge of the Company, threatened against the Company or any of its officers, directors, employees, agents, at law or in equity, in any court or before any Governmental Entity, by persons alleging violations of federal or state laws respecting employment, including but not limited to, gender, race, disability, national origin or age discrimination, violations of the Occupational Safety and Health Act of 1970, as amended, Family and Medical Leave Act of 1993, as amended, terms and conditions of employment or the federal or state Legal Requirements regarding wages and hours.

(j) Inventory. All Company inventory was ordered new, purchased new, or acquired in the ordinary course of business or pursuant to acquisitions and consistent with the regular inventory practices of the Company. All such inventory is of a quality usable and merchantable in the operation of the business and is in good repair and condition, ordinary wear and tear excepted, except for obsolete items which have been written off in the Company financial statements included in the Company SEC Documents or on the accounting records of the Company as of the Closing Date, as the case may be.

(k) Rental Purchase Agreements. The Company has provided to Acquiror true and correct copies of all forms of Rental Purchase Agreements utilized by the Company during the previous five (5) years (the “Rental Purchase Agreements”). Except as set forth on **Schedule 3.1(k)** of the Company Disclosure Schedule, the form of each Rental Purchase Agreement utilized by the Company currently and during the previous five (5) years of the Company is and was, as the case may be, in compliance with all federal and state laws. The Rental Purchase Agreements were entered into in the ordinary course of business in a manner consistent with the regular business practices of the Company at the time at which such agreements were utilized. With respect to each Rental Purchase Agreement to which the Company is currently a party:

(i) such Rental Purchase Agreement is in full force and effect and constitutes a valid, legal and binding obligation of the Company and to the Company’s Knowledge, the other contracting parties, enforceable against each of them in accordance with its terms;

(ii) the Company has complied in all respects with the terms of such Rental Purchase Agreement;

(iii) the Company is not in breach, violation or default under such Rental Purchase Agreement;

(iv) no event has occurred which constitutes, or with the lapse of time or the giving of notice, or both would constitute a breach, violation or default under the Rental Purchase Agreement by the Company;

(v) the enforceability of such Rental Purchase Agreement and the enjoyment of the rights and benefits thereunder will not be affected in any respect by the execution and delivery of this Agreement, the performance by the parties of their obligations hereunder or the consummation of the transactions contemplated hereby;

except for those matters above which would not, individually or in the aggregate, have a Material Adverse Effect.

(l) Labor Matters. The Company has not been, and is not now, a party to any collective bargaining agreement or other labor contract. There has not been, nor is there presently pending (including matters which are on appeal or have not been fully funded, and administrative matters that may be closed but with respect to which the applicable statute of limitations has not run) or existing, and, to the Company’s Knowledge, there is not threatened, any strike, slowdown, picketing, work stoppage or employee grievance process involving the Company. To the Knowledge of the Company, no event has occurred or circumstance exists that could provide the basis for any work stoppage or other labor dispute and there is not pending or, to the Knowledge of the Company, threatened against or affecting the Company any proceeding relating to the alleged violation of any legal requirement pertaining to labor relations or employment matters, including any charge or complaint filed with the National Labor Relations Board or any comparable Governmental Entity, and there is no organizational activity or other labor dispute against or affecting the Company. No application or petition for an election of or for certification of a collective bargaining agent is pending and no grievance or arbitration proceeding exists that might have an adverse effect upon the Company. There is no lockout of any employees by the Company, and no such action is contemplated by the Company. To the Knowledge of the Company, except as set forth on **Section 3.1(l)** of the Company Disclosure Schedule, there has been no charge of discrimination filed against or threatened against the Company with the Equal Employment Opportunity Commission or similar Governmental Entity.

(m) ERISA Matters.

(i) **Section 3.1(m)** of the Company Disclosure Schedule lists all employee benefit plans of the Company (the “Benefit Plans”). With respect to each such plan, the Company has delivered or made available to Acquiror correct and complete copies of (1) all plan texts and agreements and related trust agreements, (2) all summary plan descriptions and material employee communications, (3) the most recent annual report (including all schedules thereto), (4) the most recent annual audited financial statement, (5) if the plan is intended to qualify under Code Section 401(a) or 403(a), the most recent determination letter, if any, received from the Internal Revenue Service (the “IRS”), and (6) all material communications with any Governmental Entity (including, without limitation, the Pension Benefit Guaranty Company and the IRS).

(ii) There are no Benefit Plans that (i) are subject to any of Code Section 412, ERISA Section 302 or Title IV of ERISA, or (ii) are welfare plans within the meaning of and subject to ERISA Section 3(1) that provide benefits to current or former Employees beyond the end of the month in which the Employee retires or is otherwise terminated (other than coverage mandated by COBRA or applicable state law), or are self-insured “multiple employer welfare arrangements,” as such term is defined in Section 3(40) of ERISA. Except as set forth on **Section 3.1(m)** of the Company Disclosure Schedule, there are no Benefit Plans that are intended to qualify under Code Section 401(a) or 403(a).

(iii) Each Benefit Plan conforms in all material respects to, and its administration is in all material respects in compliance with, all applicable laws and regulations

(iv) Except as set forth on **Section 3.1(m)** of the Company Disclosure Schedule, the consummation of the Merger, this Agreement and the transactions contemplated thereby and hereby will not (1) entitle any current or former Employee to severance pay, unemployment compensation or any similar payment or (2) accelerate the time of payment or vesting, or increase the amount of any compensation due to, any current or former employee, excluding stock options which all accelerate and vest in connection with consummation of the Merger

(v) No Benefit Plan is a “multiemployer plan” within the meaning of the Code or Section 3(37) of ERISA or a plan subject to Title IV of ERISA or Section 412 of the Code.

(vi) In the six years preceding the date hereof with respect to each Benefit Plan including, for this purpose, any Benefit Plan maintained, sponsored or contributed to by any ERISA Affiliate (1) no such plan that is or was subject to Title IV of ERISA has been terminated; (2) no reportable event with the meaning of Section 4043 or ERISA has occurred; (3) no filing of a notice of intent to terminate such a plan has been made; and (4) the Pension Benefit Guaranty Company has not initiated any proceeding to terminate any such plan.

(vii) The Company is not a party to any agreement that has resulted, or would result, in the payment of any compensation to any current or former employee that would constitute a “parachute payment” as defined in Section 280G of the Code.

(viii) The Company has no existing arrangement with any of its employees providing for an excise tax gross up in respect of any excise taxes imposed by Section 4999 of the Code.

(ix) Section 162(m) of the Code does not limit the deduction for employee remuneration for the Company.

(n) Taxes.

(i) The Company has timely filed all tax returns and reports required to be filed by it and all such returns and reports are complete and correct in all material respects, or requests for extensions to file such returns or reports have been timely filed, granted and have not expired, except to the extent that such failures to file, to be complete or correct or to have extensions granted that remain in effect individually or in the aggregate would not have a Material Adverse Effect. The Company has paid all Taxes shown as due on such returns, and the most recent financial statements contained in the Company SEC Documents reflect an adequate reserve for all Taxes payable by the Company for all taxable periods and portions thereof accrued through the date of such financial statements.

(ii) No deficiencies for any Taxes have been proposed, asserted or assessed against the Company that are not adequately reserved for, except for deficiencies that individually or in the aggregate would not have a Material Adverse Effect.

(iii) No claim has ever been made or, to the Company’s Knowledge, is threatened to be made by any Governmental Entity in a jurisdiction where the Company does not file Tax returns that it is or may be subject to taxation by that jurisdiction.

(iv) **Section 3.1(n)** of the Company Disclosure Schedule contains a complete and accurate list of all Tax returns of the Company that have been audited or are currently under audit and accurately describe any deficiencies or other amounts that were paid or are currently being contested. To the Knowledge of the Company, no undisclosed deficiencies are expected to be asserted with respect to any such audit. All deficiencies proposed as a result of such audits have been paid, reserved against, settled or are being contested in good faith by appropriate proceedings as described in **Section 3.1(n)** of the Company Disclosure Schedule. The Company has delivered, or made available to Acquiror, copies of any examination reports, statements or deficiencies or similar items with respect to such audits. Except as provided in **Section 3.1(n)** of the Company Disclosure Schedule, the Company has no Knowledge that any Governmental Entity is likely to assess any additional taxes for any period for which Tax returns have been filed. There is no dispute or claim concerning any taxes of the Company either (i) claimed or raised by any Governmental Entity in writing or (ii) as to which the Company has Knowledge. Except as described in **Section 3.1(n)** of the Company Disclosure Schedule, the Company has not given or been requested to give waivers or extensions (or is or would be subject to a waiver or extension given by any other Person) of any statute of limitations relating to the payment of Taxes of the Company or for which the Company may be liable.

(v) All Taxes that the Company is or was required by Legal Requirements to withhold, deduct or collect have been duly withheld, deducted and collected and, to the extent required, have been paid to the proper Governmental Entity or other Person.

(vi) There is no tax sharing agreement, tax allocation agreement, tax indemnity obligation or similar written or unwritten agreement, arrangement, understanding or practice with respect to Taxes (including any advance pricing agreement, closing agreement or other agreement relating to Taxes) that will require any payment by the Company.

(vii) The Company (A) has not been a member of an affiliated group within the meaning of the Code Section 1504(a) (or any similar group defined under a similar provision of state, local or foreign law) and (B) has no liability for Taxes of any Person (other than the Company) under Treas. Reg. Sect. 1.1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor by contract or otherwise.

The Company has disclosed on its federal income Tax returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Code Section 6662.

(o) Environmental Matters.

(i) Except for matters which would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (A) no written notice, notification, demand, request for information, citation, summons, complaint or order has been received by, and no action, claim, suit, proceeding or review or, to the Knowledge of the Company, investigation is pending or, to the Knowledge of the Company, threatened by any Person against, the Company with respect to any matters relating to or arising out of any Environmental Law; and (B) the Company is in compliance with all Environmental Laws.

(ii) For purposes of this Agreement, the term "Environmental Laws" means federal, state, and local statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, codes, injunctions, permits and governmental agreements relating to human health and the environment, including, but not limited to, Hazardous Materials; and the term "Hazardous Material" means all substances or materials regulated as hazardous, toxic, explosive, dangerous, flammable or radioactive under any Environmental Law including, but not limited to, (A) petroleum, asbestos or polychlorinated biphenyls and (B) in the United States, all substances defined as Hazardous Substances, Oils, Pollutants or Contaminants in the National Oil and Hazardous Substances Pollution Contingency Plan, 40 C.F.R. Section 300.5.

(p) Opinion of Financial Advisor. The Company has received the opinion of its Financial Advisor, to the effect that, as of the date of its opinion, the Merger Consideration is fair from a financial point of view to the holders of shares of Company Common Stock (the "Fairness Opinion").

(q) Takeover Statutes. The Company's Board of Directors, at a meeting duly called and held, has approved, for purposes of Chapter 1704 of the Ohio Statutes, the Merger and the acquisition by Acquiror of the shares of common stock of the Company pursuant to the Merger. As of the date of this Agreement, except for Chapter 1704 of the Ohio Statutes and Section 1701.831 of the Ohio Statutes, no "fair price," "business combination," "moratorium," "control share acquisition" or other anti-takeover statute or similar statute or regulation enacted by any state apply to the Merger or the other transactions contemplated by this Agreement.

(r) Finders' or Advisors' Fees. Except for its Financial Advisor, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of the Company who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement.

(s) Intellectual Property; Software.

(i) Except in each case where the failure would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect and except as disclosed in **Section 3.1(s)** of the Company Disclosure Schedule, (i) the Company owns all right, title and interest in or has valid and enforceable rights to use, by license or other agreements, all of the Intellectual Property that is currently used in the conduct of the Company's business, free of all liens, pledges, charges, options, rights of first refusal, security interests or other encumbrances of any kind, (ii) no action, claim, arbitration, proceeding, audit, hearing, investigation, litigation or suit (whether civil, criminal, administrative, investigative or informal) has commenced, been brought or heard by or before any Governmental Entity or arbitrator or is pending or is threatened in writing by any third Person with respect to any Intellectual Property owned by the Company in connection with the business as currently conducted, including any claim or suit that alleges that any such Intellectual Property infringes, impairs, dilutes or otherwise violates the rights of others, and the Company is not subject to any outstanding injunction, judgment, order, decree, ruling, charge, settlement, or other dispute involving any third Person's Intellectual Property, (iii) the Company has not threatened or initiated any claim or action against any third party with respect to any Intellectual Property, and (iv) the Company has no Knowledge of any material conflict with or infringements of any Intellectual Property of any third Person.

(ii) For purposes of this Agreement, “Intellectual Property” means all (i) inventions, discoveries, processes, designs, techniques, developments, technology, and related improvements, whether or not patentable; (ii) United States patents and applications therefor and all divisionals, reissues, renewals, registrations, confirmations, re-examinations, certificates of inventorship, extensions, continuations and continuations-in-part thereof; (iii) United States, state and foreign trademarks, trade dress, service marks, service names, trade names, brand names, logo or business symbols, whether registered or unregistered, and pending applications to register the foregoing, including all extensions and renewals thereof and all goodwill associated therewith; (iv) United States and foreign copyrights in writings, designs, software, mask works or other works, whether registered or unregistered, and pending applications to register the same, (v) technical, scientific, and other know-how, trade secrets, methods, processes, practices, formulas and techniques, computer software programs and software systems, including all databases, compilations, tool sets, compilers, higher level or “proprietary” languages, related documentation and materials, whether in interpretive code, source code, object code or human readable form; (vi) rights of publicity and privacy, “name and likeness” rights and other similar rights, (vii) books and records kept in the ordinary course of business describing or used in connection with any of the foregoing; and (viii) claims or causes of action arising out of or related to past, present or future infringement or misappropriation of any of the foregoing. Without limiting the foregoing, the Intellectual Property shall include the trademark registrations, trademark applications, and right to register the domain names as set forth in **Section 3.1(s)** of the Company Disclosure Schedules.

(t) Major Suppliers.

(i) **Section 3.1(t)** of the Company Disclosure Schedule lists each of the Company’s vendors or suppliers, the dollar value of purchases from each of which constituted greater than 10% of the Company’s revenue for the year ended December 31, 2003 (each, a “Major Supplier”), and the dollar amount of business done with each Major Supplier in such period. The Company has furnished Acquiror and Merger Sub with complete and accurate copies of all current written agreements or written summaries of unwritten agreements with such Major Suppliers. Except as set forth in **Section 3.1(t)** of the Company Disclosure Schedules, (i) the Company is not engaged in a material dispute with any Major Supplier, (ii) there has been no material change in the business relationship of the Company and any Major Supplier since December 31, 2003, and (iii) no Major Supplier has indicated in writing or otherwise any material modification or change in the business relationship with the Company.

(ii) Since January 1, 2002: (a) no supplier of the Company has canceled or otherwise terminated its relationship with the Company, except for such cancellations and terminations that, individually or in the aggregate, have not had, or are not reasonably expected to have, a Material Adverse Effect; (b) to the Knowledge of the Company, no supplier of the Company has provided written notice to the Company of its intent either to terminate its relationship with the Company or to cancel any Material Contract with the Company , except for such terminations and cancellations that would not, individually or in the aggregate, have, or be reasonably likely to have, a Material Adverse Effect; (c) to the Knowledge of the Company, none of the suppliers of the Company is unable to continue to supply the products or services supplied to the Company by such supplier, except for such inabilities that, individually or in the aggregate, have not had, or be reasonably likely to have, a Material Adverse Effect; and (d) the Company has no direct or indirect ownership interest in any supplier of the Company.

(u) Material Contracts. **Section 3.1(u)** of the Company's Disclosure Schedule contains a true and complete list of the Material Contracts of the Company. There have been delivered to or made available to Acquiror true and complete copies of all of the Material Contracts and any other contracts or agreements set forth in any section of the Company's Disclosure Schedule. Except as set forth in Section 3.1(u) of the Company's Disclosure Schedule, all Material Contracts to which the Company is a party are, to the Company's Knowledge, in full force and effect, the Company has performed its obligations thereunder to date and, shall continue to do so through the Closing Date and, to the Knowledge of the Company, each other party thereto has performed its obligations thereunder to date.

(v) Certain Business Practices. To the Knowledge of the Company, within the past five years, none of the Company, or any directors, officers, agents or employees of the Company has (i) used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns or violated any provision of the Foreign Corrupt Practices Act of 1977, as amended, or (iii) made any other unlawful payment.

(w) Voting Requirements. The affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock at the Company Shareholders Meeting to adopt this Agreement (the "Company Shareholder Approval") is the only vote of the holders of any class or series of the Company's capital stock necessary to adopt and approve this Agreement and the Merger and the transactions contemplated hereby.

(x) Board Recommendation. As of the date hereof, the Board of Directors of the Company has (i) full knowledge of the terms of the Voting Agreement and (ii) recommended that the shareholders of the Company vote for adoption of this Agreement and the consummation of the transactions contemplated hereby.

(y) Monthly Revenue-One Month. The Company's Monthly Recurring Revenue for the month of January 2004, was not less than $8,400,000.

(z) Net Book Value of Inventory. The net book value of the Company's inventory, calculated in accordance with the Company's historical practices, on an unaudited basis, as at December 31, 2003, was not less than $40,500,000.

(aa) Property. A true and complete copy of all real estate leases have been delivered to the Acquiror. With respect to the Headquarters Lease and each real estate lease of the Company's stores (the "Store Leases" and, together with the Headquarters Lease, the "Leases"), (i) each Lease has been validly executed and delivered by the Company and is a binding agreement therein and, to the Company's Knowledge, has been validly executed and delivered by the other party or parties thereto and is binding thereon; (ii) the Company is not, and, to the Company's Knowledge, no other party to the Lease is, in material breach or material default, and, no event has occurred on the part of the Company or, to the Knowledge of the Company, the part of any other party which, with notice or lapse of time, would constitute such a breach or default or permit termination, modification or acceleration under the Lease; (iii) except as set forth on **Section 3.1(aa)** of the Company Disclosure Schedule, the Lease will continue to be binding in accordance with its terms following the Closing Date; (iv) the Company has not repudiated and, to the Company's Knowledge, no other party to the Lease has repudiated any provision thereof; (v) except as set forth on **Section 3.1(aa)** of the Company Disclosure Schedule, there are no material disputes, oral agreements or delayed payment programs in effect as to the Lease; and (vi) all facilities leased under each Lease are fit for the operation of the store and have been reasonably maintained. All heating, cooling, lighting, plumbing and electrical systems under each Lease are in good repair and working order.

(bb) Vehicles. All vehicles and items of equipment utilized by the Company, taken as a whole, are (i) mechanically sound and in a condition to perform in the manner needed for the operation of the Company, ordinary wear and tear excepted and (ii) in compliance with all applicable statutes, ordinances and regulations, including without limitation, those related to safety.

(cc) Insurance. The Company currently maintains fire and casualty and general liability, workers compensation and automobile policies with reputable insurance carriers. To the Company's Knowledge, such insurance policies provide full and adequate coverage for all normal risks incident to the Company.

(dd) Certifications. The Chief Executive Officer and the Chief Financial Officer of the Company have signed, and the Company has furnished to the SEC, all certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Such certifications contain no qualifications or exceptions to the matters certified therein and have not been modified or withdrawn, and neither the Company nor any of its officers has received notice from any Governmental Entity questioning or challenging the accuracy, completeness, form or manner of filing or submission of such certifications.

(ee) Loans to Insiders. The Company has not, since July 30, 2002, extended or maintained credit, arranged for the extension of credit, or renewed an extension of credit, in the form of a personal loan to or for any director or executive officer (or equivalent thereof) of the Company. **Section 3.1(ee)** of the Company Disclosure Schedule identifies any loan or extension of credit maintained by the Company to which the second sentence of Section 13(k)(1) of the Exchange Act applies.

(ff) Affiliate Transactions. **Section 3.1(ff)** of the Company Disclosure Schedule contains a complete and correct list of all agreements, contracts, transfers of assets or liabilities or other commitments or transactions, whether or not entered into in the ordinary course of business, to or by which the Company, on the one hand, and any director or executive officer or any of their respective Affiliates (other than the Company), on the other hand, are or have been a party or are otherwise bound or affected, and that (i) are currently pending or in effect or (ii) involve continuing liabilities and obligations (absolute, contingent or otherwise).

(gg) Disclosure. To the Company's Knowledge, this Agreement and the Company Disclosure Schedule, taken as a whole, do not contain any untrue statement of a material fact or omit to state a material fact required to be stated herein or therein or necessary to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

(hh) No Additional Representations or Warranties. Neither the Company nor any other Person makes any other express or implied representation on behalf of the Company other than as expressly set forth in this **Article 3**.

3.2 Representations and Warranties of Acquiror and Merger Sub. Acquiror and Merger Sub each hereby represents and warrants to the Company as follows:

(a) No Prior Activities of Merger Sub. Merger Sub has not conducted any business prior to the date hereof and has no, and prior to the Effective Time will have no, assets, liabilities or obligations of any nature other than those incident to its formation and required pursuant to this Agreement and the Merger and the other transactions contemplated by this Agreement.

(b) Organization, Standing and Corporate Power. Each of Acquiror and Merger Sub is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is organized and has the requisite corporate or other power, as the case may be, and authority to carry on its business as now being conducted.

(c) Authority; No Conflict. Each of Acquiror and Merger Sub has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement. The execution and delivery of this Agreement by Acquiror and Merger Sub and the consummation by Acquiror and Merger Sub of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Acquiror and Merger Sub. This Agreement has been duly executed and delivered by Acquiror and Merger Sub and, assuming the due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of Acquiror and Merger Sub, enforceable against Acquiror and Merger Sub in accordance with its terms subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium, and similar laws of general applicability relating to or affecting the rights of creditors and general principles of equity. Except as set forth on **Section 3.2** of the Acquiror's Disclosure Schedule, the execution and delivery of this Agreement does not, and the consummation of the transactions contemplated by this Agreement and compliance with the provisions of this Agreement will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a benefit under, (i) the certificate of incorporation, articles of organization or other charter documents of Acquiror or the articles of incorporation or code of regulations of Merger Sub, (ii) any loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit, concession, franchise, license or similar authorization applicable to Acquiror or Merger Sub or their respective properties or assets or (iii) subject to the governmental filings and other matters referred to in the following sentence, any Legal Requirement applicable to Acquiror or Merger Sub or their respective properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, defaults, rights, losses or Liens that individually or in the aggregate would not reasonably be expected to materially impair or delay the ability of Acquiror or Merger Sub to perform their obligations under this Agreement. Except as set forth on **Section 3.2** of Acquiror's Disclosure Schedule, no consent, approval, order or authorization of, action by, or in respect of, or registration, declaration or filing with, any Governmental Entity is required by Acquiror or Merger Sub in connection with the execution and delivery of this Agreement by Acquiror or Merger Sub or the consummation by Acquiror or Merger Sub of the transactions contemplated hereby, except: (1) the filing of the Certificate of Merger with the Secretary of State of the State of Ohio; (2) the filing of a pre-merger notification and report form by Acquiror under the HSR Act; and, (3) such consents, approvals, orders or authorizations the failure of which to be made or obtained individually or in the aggregate would not reasonably be expected to materially impair or delay the ability of Acquiror or Merger Sub to perform its respective obligations under this Agreement.

(d) Proxy Materials. All of the information to be furnished by Acquiror or Merger Sub for inclusion in the Definitive Proxy Statement (or any amendment or supplement thereto) will not, on the date the Definitive Agreement is first mailed to the Company's shareholders, and the Definitive Proxy Statement, as then amended or supplemented, on the date of the Company Shareholders Meeting referred to in **Section 5.1(b)** or on the Closing Date, contain any statement which is false or misleading with respect to any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Notwithstanding the foregoing, Acquiror and Merger Sub make no representation or warranty regarding information furnished by the Company for inclusion in the Definitive Proxy Statement (or any amendment or supplement thereto). The information supplied or to be supplied in writing by or on behalf of Acquiror or Merger Sub for inclusion in the Definitive Proxy Statement will comply as to form and substance in all material respects with the requirements of the Exchange Act and the applicable rules and regulations of the SEC thereunder.

(e) Brokers. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Acquiror or Merger Sub.

(f) Financial Capability. Based on existing cash reserves or availability under existing credit facilities Acquiror and Merger Sub have the funds necessary to finance the transaction contemplated hereby, pay related fees and expenses, and provide for the ongoing working capital needs of the Surviving Corporation.

ARTICLE 4
PRE-CLOSING COVENANTS

4.1 Conduct of Business. Except as (i) set forth in **Section 4.1** of the Company Disclosure Schedules, (ii) as otherwise expressly contemplated by this Agreement or (iii) consented to, in writing, by Acquiror, such consent not to be unreasonably withheld or delayed, during the period from the date of this Agreement to the Effective Time, the Company shall carry on its business in the ordinary course consistent with past practice and in compliance in all material respects with all applicable Legal Requirements and, to the extent consistent therewith, use all reasonable efforts to preserve intact its current business organizations (other than internal organizational realignments), use all reasonable efforts to keep available the services of its current officers and other key employees and preserve their relationships with those Persons having business dealings with the Company to the end that its goodwill and ongoing business shall not be impaired at the Effective Time. Without limiting the generality of the foregoing (but subject to the above exceptions), during the period from the date of this Agreement to the Effective Time or earlier termination of this Agreement, the Company shall not:

(a) (i) declare, set aside or pay any dividends on, or make any other distributions in respect of, any of its capital stock, (ii) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, except for issuances of the Company Common Stock upon the exercise of the Company Stock Options under the Company Stock Plans outstanding as of the Stock Reference Date, and only in accordance with their present terms or (iii) except pursuant to agreements entered into with respect to the Company Stock Plans that are in effect as of the close of business on the Stock Reference Date, purchase, redeem or otherwise acquire any shares of capital stock of the Company or any other securities thereof or any rights, warrants or options to acquire any such shares or other securities;

(b) issue, deliver, sell, pledge or otherwise encumber or subject to any Lien any shares of its capital stock, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities, other than the issuance of Company Common Stock upon the exercise of the Company Stock Options outstanding on the date hereof and in accordance with their present terms;

(c) amend its articles of incorporation or code of regulations or merge or consolidate with any Person;

(d) acquire or agree to acquire, or dispose of or agree to dispose of, any assets (other than inventory in the ordinary course of business consistent with past practice), any business or any Person;

(e) sell, lease, license, mortgage or otherwise encumber or subject to any Lien abandon or otherwise dispose of any of its properties or assets other than inventory in the ordinary course of business consistent with past practice;

(f) take any action that would cause the representations and warranties set forth in this Agreement to no longer be true and correct;

(g) make any change in accounting methods or cash management;

(h) (i) grant any increase in the compensation payable or to become payable by the Company to any of its officers, directors or employees, except in the case of employees (who are not officers or directors) increases in the ordinary course of business; or (ii) (A) adopt any new, (B) grant any award under, or (C) except as required by applicable Legal Requirements, amend or otherwise increase, or accelerate the payment or vesting of the amounts payable or to become payable under, any existing Benefit Plan; or (iii) enter into or modify or amend any employment or severance agreement with or, except as required by applicable Legal Requirements, grant any severance or termination rights to any officer, director or employee of the Company; (iv) enter into any collective bargaining agreement or (v) make any loan to, or enter into any material transaction of any other nature with, any director, executive officer or employee of the Company;

(i) enter into, modify, amend or terminate in any material respect, any Material Contract or waive, release or assign any material rights or claims thereunder; *provided, however*, that for purposes of this clause (i), Material Contracts includes contracts and agreements for the purchase of services or non-inventory goods that (A) require payments by the Company in excess of $50,000, or (B) are not terminable by the Company on notice of thirty (30) days or less without penalty, and further provided that Store Leases for a maximum of ten (10) stores may be extended for a maximum of six (6) months each and store Leases may also be amended in other respects, so long as such amendments do not increase the term or the rental amount and are entered into in the ordinary course of business.

(j) (i) incur or assume any Indebtedness other than Indebtedness with respect to working capital in amounts consistent with past practice; (ii) materially modify any Indebtedness or other liability; (iii) assume, guaranty, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person, other than immaterial amounts in the ordinary course of business, and other than the endorsement of negotiable instruments for collection in the ordinary course of business; (iv) make any loans, advances or capital contributions to, or investments in, any other person (other than customary advances to employees in accordance with past practice); or (v) enter into any material commitment or transaction other than the purchase of inventory in the ordinary course of business;

(k) make any material Tax election (unless required by law) or settle or compromise any material income Tax liability;

(l) (i) waive the benefits of, or agree to modify in any material manner, any confidentiality, standstill or similar agreement to which the Company is a party, or (ii) pay, discharge or satisfy any proceeding, other than (A) a payment, discharge or satisfaction for which liabilities are reflected on or are reserved against in the Company’s most recent consolidated financial statements (or the notes thereto) included in the Company SEC Documents, but not to exceed the reserve therefor, in each case in complete satisfaction, or (B) a payment, discharge or satisfaction in a non-material amount shall be less than $50,000 individually and $250,000 in the aggregate), and, in either case, with a complete release, of such matter with respect to all parties to such matter, of actions, suits, proceedings or claims; *provided*, *however*, that this prohibition shall not preclude the Company from amending any confidentiality or other agreement that is deemed necessary by the Board of Directors of the Company in the exercise of its fiduciary duties under **Section 4.5** hereof.

(m) make any payment or incur any liability or obligation (excluding amounts of less than $50,000 in the aggregate) for the purpose of obtaining any consent from any third party to the transactions contemplated hereby;

(n) fail to keep in full force and effect insurance comparable in amount and scope to coverage maintained by it (or on behalf of it), including altering a self-insurance arrangement to an insured arrangement, and visa versa, on the date hereof;

(o) fail to inform Acquiror of the occurrence of any event which to the Knowledge of the Company could reasonably be expected to result in a breach of any representation of warranty contained in **Section 3.1**, such that the condition set forth in Section 6.2(a) would not be satisfied;

(p) form any directly or indirectly wholly-owned subsidiary entities or other Affiliate;

(q) enter into any partnerships, joint ventures or similar agreements related to the profit or expense sharing with a third Person;

(r) introduce any new product line, other than product lines currently available in Acquiror’s stores, or engage in any lines of business other than the rent-to-own business;

(s) modify, amend, or terminate the Company’s existing vehicle leases or enter into any new vehicle leases; provided that this shall not preclude the entry of any new vehicle lease for a store delivery vehicle which replaces an existing vehicle lease, nor the extension, on a month-to-month basis, of any store vehicle or other vehicle lease; or

(t) authorize, or commit or agree to take, any of the foregoing actions.

4.2 Other Actions. Except as required by law, the Company and Acquiror shall not, and neither shall permit any of their respective Affiliates to, voluntarily take any action that would reasonably be expected to result in any of the conditions to the Merger set forth in **Article 6** (Conditions Precedent) not being satisfied.

4.3 Advice of Changes. The Company and Acquiror shall promptly advise the other party orally and in writing to the extent it has Knowledge of any change or event having, or which, insofar as can reasonably be foreseen, would reasonably be expected to have a Material Adverse Effect on such party or on the truth of their respective representations and warranties or the ability of the conditions set forth in **Article 6** to be satisfied; *provided*, *however*, that no such notification shall affect the representations, warranties, covenants or agreements of the parties (or remedies with respect thereto) or the conditions to the obligations of the parties under this Agreement.

4.4 [Intentionally left blank].

4.5 No Solicitation By The Company.

(a) The Company shall not, nor shall it authorize or permit any of its directors, officers or employees or any investment banker, financial advisor, attorney, accountant or other representative retained by it to, directly or indirectly, through another Person, (i) solicit, initiate or encourage (including by way of furnishing any information or assistance), or take any other action to facilitate or cause any inquiries or the making of any proposal from any Person which constitutes any Company Takeover Proposal or (ii) participate in any discussions or negotiations regarding any Company Takeover Proposal; *provided, however*, that if, at any time, the Board of Directors of the Company determines in good faith, after consultation with such legal, financial and other advisors as it deems appropriate, that it is necessary to do so in order to act in a manner consistent with its fiduciary duties under the Ohio Statutes, including, without limitation, Section 1701.59, the Company may, prior to the date of the Company Shareholders Meeting and only in response to a Company Takeover Proposal that was not solicited by it or that did not otherwise result from a breach of the foregoing restrictions under this **Section 4.5(a)**, (x) furnish non-public information with respect to the Company to any Person making a Company Takeover Proposal pursuant to a confidentiality agreement and (y) participate in discussions or negotiations regarding such Company Takeover Proposal.

(b) In addition to the obligations of the Company set forth in paragraph (a) of this **Section 4.5**, the Company shall immediately advise Acquiror orally and in writing of any request for information or of any Company Takeover Proposal and the material terms and conditions of such request or Company Takeover Proposal, including the name of any Person making a Company Takeover Proposal. The Company will keep Acquiror reasonably informed of the status and details (including amendments and proposed amendments) of any such request or Company Takeover Proposal. The Company may not accept a Company Takeover Proposal from any Person, nor may it terminate this Agreement, unless it has provided Acquiror (i) at least four calendar days notice of the exact terms of the Company Takeover Proposal, including a copy of the proposed agreement, and (ii) at least two calendar days notice of any and each amendment to such Company Takeover proposal and proposed agreement.

(c) Except as set forth in this **Section 4.5** or **7.1(e)** hereof, neither the Company's Board of Directors nor any committee thereof shall (i) withdraw or modify, or propose to withdraw or modify, in any manner adverse to Acquiror, the approval or recommendation by the Company's Board of Directors or any committee thereof of this Agreement and the transactions contemplated hereby, (ii) approve or recommend, or propose to approve or recommend, any competing transaction, or (iii) enter into any agreement, commitment, understanding or other arrangement with respect to any Company Takeover Proposal.

(d) Nothing contained in this **Section 4.5** shall prohibit the Company from taking and disclosing to its shareholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or from making any disclosure to the Company's shareholders if, in the good faith judgment of the Board of Directors of the Company, after consultation with outside counsel, failure so to disclose would be inconsistent with its obligations under applicable Legal Requirements.

ARTICLE 5
ADDITIONAL AGREEMENTS

5.1 Preparation of the Proxy Statement; Shareholders Meeting.

(a) Proxy Statement. In connection with the Company Shareholders Meeting contemplated by **Section 5.1(b)** below, within thirty (30) days following the date hereof, the Company will prepare, pursuant to, and in accordance with, Regulation 14A of the Exchange Act and file (after consultations with Acquiror) a preliminary proxy statement relating to the transactions contemplated by this Agreement (the "Preliminary Proxy Statement") and will use its commercially reasonable efforts to respond to the comments of the SEC, if any, thereon, and to cause a final proxy statement (such proxy statement the "Definitive Proxy Statement") to be mailed to the Company's shareholders, in each case as soon as reasonably practicable after providing Acquiror with reasonable opportunity to comment thereon. Each party to this Agreement will notify the other parties promptly of the receipt of the comments of the SEC, if any, and of any request by the SEC for amendments or supplements to the Preliminary Proxy Statement or the Definitive Proxy Statement or for additional information, and will supply the others with copies of all correspondence between such party or its representatives, on the one hand, and the SEC or members of its staff, on the other hand, with respect to the Preliminary Proxy Statement, the Definitive Proxy Statement or the Merger. If at any time prior to the Company Shareholders Meeting, (i) any event should occur relating to the Company which should be set forth in an amendment of, or a supplement to, the Definitive Proxy Statement, or (ii) any event should occur relating to Acquiror or Merger Sub or any of their respective Affiliates, in either case that should be set forth in an amendment of, or a supplement to, the Definitive Proxy Statement, then the Company or Acquiror (as applicable), will, upon learning of such event, promptly inform the other of such event and the Company shall prepare, file and, if required, mail such amendment or supplement to the Company's shareholders; provided that, prior to such filing or mailing the Company shall consult with Acquiror with respect to such amendment or supplement and shall afford Acquiror reasonable opportunity to comment thereon. Acquiror will furnish to the Company the information relating to Acquiror and Merger Sub, their respective Affiliates, which is required to be set forth in the Preliminary Proxy Statement or the Definitive Proxy Statement under the Exchange Act and the rules and regulations of the SEC thereunder.

(b) The Company will take all action necessary in accordance with applicable law and its governing documents to duly call, give notice of, and, after SEC clearance of the Definitive Proxy Statement, convene a meeting of its shareholders to consider and vote upon the adoption of this Agreement (the "Company Shareholders Meeting"). The Board of Directors of the Company shall recommend such adoption and approval, and subject to fiduciary obligations under applicable law, shall not withdraw or modify such recommendation other than in compliance with **Section 4.5(a)** and **Section 7.1(e)**, and shall, subject to **Section 5.3** hereof, take all lawful action necessary to obtain such shareholder approval.

5.2 Access To Information; Confidentiality.

(a) The parties hereby acknowledge the Confidentiality Agreement dated January 8, 2004 between Acquiror and the Company (the "Confidentiality Agreement") expires on execution of this Agreement. Each of the Company and Acquiror will, and will cause their respective officers, directors, employees, agents and representatives to (i) hold in confidence, unless compelled to disclose by judicial or administrative process or by other Legal Requirements, all "Confidential Information" (as such term was defined in the Confidentiality Agreement) concerning the other party furnished in connection with the transactions contemplated by this Agreement until such time as such information becomes publicly available (otherwise than through the wrongful act of such person) and (ii) not release or disclose such information to any other person, except in connection with this Agreement to its auditors, attorneys, financial advisors, other consultants and advisors. In the event of termination of this Agreement for any reason, the parties hereto will promptly return or destroy all documents containing non-public information so obtained from any other party hereto and any copies made of such documents and any summaries, analyses or compilations made therefrom.

(b) The Company shall, and shall cause its Affiliates, together with its agents and representatives, to, afford to Acquiror and to the officers, employees, accountants, counsel, financial advisors and other representatives of Acquiror, reasonable access during normal business hours during the period prior to the Effective Time to make such inspections as Acquiror may reasonably require of all of its properties, books, contracts, commitments, personnel and records and, during such period, the Company shall, and shall cause its Affiliates, together with its agents and representatives, to, furnish promptly to Acquiror (i) a copy of each report, schedule, registration statement and other document filed by it during such period pursuant to the requirements of federal or state securities laws and (ii) all other information concerning the Company's business, properties and personnel as Acquiror may reasonably request. Acquiror will hold, and will cause its officers, employees, accountants, counsel, financial advisors and other representatives and Affiliates, and agents and representatives, to hold, any non-public information in accordance with the terms of **Section 5.2(a)**.

(c) Between the date hereof and the Effective Time, the Company shall furnish to the Acquiror and Merger Sub (i) within five (5) Business Days after the delivery thereof to management, such monthly financial statements and data (financial, operational, compliance or otherwise) as are regularly prepared for distribution to Company management and (ii) at the earliest time they are available, such quarterly and annual financial statements as are prepared for the Company's SEC filings, which (in the case of this clause (ii)), shall be in accordance with the books and records of the Company.

5.3 Commercially Reasonable Efforts; Cooperation.

(a) Upon the terms and subject to the conditions set forth in this Agreement, each of the parties agrees to use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated by this Agreement, including (i) obtaining of all necessary actions or non-actions, waivers, consents and approvals from Governmental Entities and the making of all necessary registrations and filings and the taking of all steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity, (ii) obtaining of all necessary consents, approvals or waivers from third parties, (iii) defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated hereby, including seeking to have any stay or temporary restraining order entered by any court or other Governmental Entity vacated or reversed, and (iv) executing and delivering of any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement. Nothing set forth in this **Section 5.3(a)** will limit or affect actions permitted to be taken pursuant to **Section 4.2**.

(b) Each of Acquiror and the Company shall (i) make the filings required of such party under the HSR Act with respect to the Merger and the other transactions contemplated by this Agreement within ten Business Days after the date of this Agreement; (ii) comply at the earliest practicable date with any request under the HSR Act for additional information, documents or other materials received by such party from the Federal Trade Commission or the Department of Justice or any other Governmental Entity in respect of such filings or the Merger and the other transactions contemplated by this Agreement, (iii) cooperate with the other party in connection with making any filing under the HSR Act and in connection with any filings, conferences or other submissions related to resolving any investigation or other inquiry by any such Governmental Entity under the HSR Act with respect to the Merger and the other transactions contemplated by this Agreement; and (iv) keep the other party apprised of the status of any inquiries made by a Governmental Entity. Any and all fees required in connection with the filing of the notices required under the HSR Act shall be borne in equal portions by the Company and Acquiror.

(c) Acquiror and the Company shall (i) each use commercially reasonable efforts to avoid the entry of, or to have vacated or terminate, any decree, order, or judgment that would restrain, prevent or delay the Closing, on or before June 30, 2004, including without limitation defending through litigation on the merits and claim asserted in any court by any party; and (ii) each take any and all steps necessary to avoid or eliminate each and every impediment under any antitrust, competition or trade regulation law that may be asserted by any Governmental Entity with respect to the Merger so as to enable the Closing to occur as soon as reasonably possible (and in any event no later than June 30, 2004, including without limitation proposing, negotiating, committing to and effecting, by consent decree, hold separate order, or otherwise, the sale, divestiture or disposition of such assets or businesses of Acquiror or the Company (or any of their respective subsidiaries) or otherwise take or commit to take any actions that limits its freedom of action with respect to, or its ability to retain, any of the businesses or assets of the Company, Acquiror or their respective subsidiaries, as may be required in order to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order, or other order in any suit or proceeding, which would otherwise have the effect of delaying the Closing; provided, however, that nothing herein shall require Acquiror to agree to the sale transfer, divestiture or other disposition of 16 or more stores of the Company, the Acquiror or any of its subsidiaries.

5.4 Director, Officer and Employee Indemnification.

(a) Acquiror shall, and shall cause the Surviving Corporation to, and the Surviving Corporation shall, indemnify and hold harmless, to the fullest extent permitted under applicable law, the individuals who on or prior to the Effective Time were officers, directors or employees of the Company (collectively, the "Indemnitees") with respect to all acts or omissions by them in their capacities as such or taken at the request of the Company at any time prior to the

Effective Time. With respect to all acts or omissions by them in their capacities as such or taken at the request of the Company at any time prior to the Effective Time, Acquiror agrees that, and Acquiror agrees to cause the Surviving Corporation to agree that, all rights of the Indemnitees to indemnification and exculpation from liabilities for acts or omissions occurring at or prior to the Effective Time as provided in the articles of incorporation or code of regulations (or comparable organizational and governing documents) of the Company as now in effect and any indemnification agreements or arrangements of the Company shall survive the Merger and shall continue in full force and effect in accordance with their terms. Such rights shall not be amended, or otherwise modified in any manner that would adversely affect the rights of the Indemnitees, unless such modification is required by law. In addition, the Surviving Corporation shall pay any expenses of any Indemnitee under this **Section 5.4** as incurred to the fullest extent permitted under applicable law, provided that the Person to whom expenses are advanced provides an undertaking to repay such advances to the extent required by applicable law.

(b) From and after the Effective Time, but solely as it may relate to events occurring before the Effective Time, Acquiror shall cause the articles of incorporation and code of regulations of the Surviving Corporation to contain provisions no less favorable with respect to limitation of certain liabilities of directors, officers and employees and indemnification than are set forth as of the date of this Agreement in the articles of incorporation and code of regulations of the Company.

(c) In the event any action is asserted or made, any determination required to be made with respect to whether an Indemnitee's conduct complies with the standards set forth under the Ohio Statutes, the applicable organizational documents of the Company or any indemnification agreements or arrangements of the Company, as the case may be, shall be made by independent legal counsel selected by such Indemnitee and reasonably acceptable to the Acquiror; provided, however, that nothing in this **Section 5.4** shall impair any rights of any current or former director or officer of the Company, including pursuant to the respective articles of incorporation or bylaws of Surviving Corporation or the Company, or their respective subsidiaries, under Ohio law or otherwise.

(d) Each of Acquiror, the Surviving Corporation and the Indemnitee shall cooperate, and cause their respective Affiliates to cooperate, in the defense of any action and shall provide access to properties and individuals as reasonably requested and furnish or cause to be furnished records, information and testimony, and attend such conferences, discovery proceedings, hearings, trials or appeals, as may be reasonably requested in connection therewith.

(e) For the six-year period commencing immediately after the Effective Time, Surviving Corporation shall either (i) maintain in effect the Company's current directors' and officers' liability insurance policies providing coverage as respects acts or omissions occurring prior to the Effective Time with respect to those persons who are currently covered by the Company's directors' and officers' liability insurance policy on terms and at limits no less favorable to the Company's directors and officers currently covered by policies in effect on the date hereof or (ii) a directors' and officers' insurance policy, which may include Acquiror's own directors' and officers' insurance policy, that (w) benefits those persons who are currently covered by the Company's directors' and officers' liability insurance policy, (x) is from a financially sound and nationally reputable carrier, (y) is at least as favorable to the Persons currently covered by the Company's directors' and officers' liability insurance in effect as of the date hereof and (z) will at a minimum have the same terms and limits as the Company's directors' and officers' liability insurance policies in effect as of the date hereof; provided, however, that, if the Company's current directors' and officers' liability insurance expires, is terminated or is canceled during such six-year period, Acquiror shall, or shall cause the Surviving Corporation to, obtain directors' and officers' liability insurance covering such acts or omissions with respect to each such Person on terms and at limits no less favorable to the Company's directors and officers currently covered by policies in effect immediately prior to the date of such expiration, termination or cancellation. The Company and Acquiror shall cooperate to make any arrangements necessary to obtain or continue such directors' and officers' liability insurance for such six-year period, including the prepayment any fees or premiums to the applicable insurance providers of such amounts as necessary to provide the coverage contemplated by this **Section 5.4**; *provided, however*, that Surviving Corporation will not be required to expend in any year an amount in excess of 150% of the annual aggregate premiums currently paid by the Company for such insurance; and *provided, further*, that if the annual premiums of such insurance coverage exceed such amount, the Surviving Corporation will be obligated to obtain a policy with the best coverage available, in the reasonable judgment of its Board of Directors, for a cost not exceeding such amount. In lieu of providing the foregoing annual insurance policies for the six (6) year period, the Surviving Corporation or Acquiror may obtain a so-called "tail" policy providing such coverage and being effective for the full six (6) year period referred to above; *provided, however*, the Surviving Corporation or Acquiror shall not be required to pay an aggregate premium therefor in excess of an amount equal to six (6) times 150% of the annual aggregate premiums currently paid by the Company for such insurance; and if the Surviving Corporation or Acquiror is unable to obtain the "tail" insurance policy for such amount, it shall obtain as much comparable insurance as possible for an aggregate premium equal to such maximum amount.

(f) The provisions of this **Section 5.4** are intended to be for the benefit of, and shall be enforceable by, each Indemnitee, such Indemnitee's heirs and representatives and (ii) are in addition to, and not in substitution for, any other rights to indemnification or contribution that any such Person may have by contract or otherwise.

(g) In the event that the Surviving Corporation or any of its successors or assigns (i) consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors and assigns of the Surviving Corporation shall assume all of the obligations thereof set forth in this **Section 5.4**.

(h) The obligations of Acquiror and the Surviving Corporation under this **Section 5.4** shall not be terminated or modified in such a manner as to adversely affect any Indemnitee to whom this **Section 5.4** applies without the consent of the affected Indemnitee (it being expressly agreed that the Indemnitees to whom this **Section 5.4** applies shall be third party beneficiaries of this **Section 5.4**), such consent not to be unreasonably withheld.

(i) Notwithstanding the foregoing, no director, officer, employee or other Person entitled to indemnity hereunder shall be indemnified for any loss, damage or liability resulting to the extent indemnity is unavailable under Section 1701.13 of the Ohio Statutes.

5.5 Public Announcements. Acquiror and the Company will consult with each other before issuing, and provide each other the opportunity to review, comment upon and concur with, any press release or other public statements with respect to the transactions contemplated by this Agreement, including the Merger, and shall not issue any such press release or make any such public statement prior to such consultation, except as either party may determine is required by applicable law, court process or by obligations pursuant to any listing agreement with any national securities exchange. The parties agree that the initial press release to be issued with respect to the transactions contemplated by this Agreement shall be in the form heretofore agreed to by the parties.

5.6 Employees.

(a) As of the Effective Time the Surviving Corporation shall offer employment at will to all employees of the Company that are actively employed by the Company immediately prior to the Effective Time; *provided*, *however*, that nothing in this **Section 5.6(a)** shall apply to those individuals listed in **Section 5.6(a)** of the Company Disclosure Schedule. Except as otherwise set forth in **Section 5.6(a)** of the Company Disclosure Schedule, the Surviving Corporation agrees to honor the terms of all existing employment contracts previously entered into by the Company. Notwithstanding any other provision of this **Section 5.6**, nothing herein shall require the continuation of any employment or any terms of employment after the Effective Time.

(b) Except as set forth in **Section 5.6(b)** of the Acquiror Disclosure Schedule, for purposes of eligibility to participate, employees of the Company as of the Effective Time shall receive credit under any employee benefit plan, program or arrangement established or maintained by Acquiror or the Surviving Corporation and made available to such employees for service accrued prior to the Effective Time with the Company.

5.7 Delisting. Each of the parties hereto shall cooperate with each other in taking, or causing to be taken, all actions necessary to delist all of the Company Common Stock from the Nasdaq National Market and to terminate registration under the Exchange Act; provided, that such delisting and termination shall not be effective until after the Effective Time.

5.8 Noncompete Agreements. Wayland J. Russell, Michael Viveiros, and Michael A. Pecchia (the “Executive Officers”) shall enter into Noncompetition Agreements, effective as of the Effective Date, in the form attached to **Schedule 5.8** of the Acquiror Disclosure Schedule (the “Noncompetition Agreements”).

5.9 Amendment to Headquarters Lease. Within fifteen (15) days of the date hereof, the Company shall enter into an amendment to the Headquarters Lease, in a form reasonably acceptable to Acquiror, providing that such lease will terminate ninety (90) days after the Effective Time with no further obligations imposed on the Surviving Corporation upon Acquiror’s payment on the Effective Date of a termination fee (which includes three (3) months rental) of One Hundred Thousand Dollars ($100,000). Such amendment shall provide that the Company agrees to abandon to lessor all furniture, fixtures and equipment on the property, except for such assets relating to and necessary for the operation of the business of the Company.

5.10 Litigation. The Company will use its reasonable efforts to promptly settle, prior to Closing, the litigation set forth on **Schedule 5.10** of the Company Disclosure Schedule.

ARTICLE 6
CONDITIONS PRECEDENT

6.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each party to effect the Merger is subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) Shareholder Approval. The Company Shareholder Approval shall have been obtained.

(b) Governmental and Regulatory Approvals. All consents, approvals and actions of, filings with and notices to any Governmental Entity required of the Company, Acquiror, or Merger Sub to consummate the Merger and the other transactions contemplated hereby (other than consents, approvals, and actions of, filings with and notices to any Government Entity required under the HSR Act and which are specified in **Section 6.1(d)**) shall have been obtained.

(c) No Injunctions or Restraints. No judgment, order, decree, statute, law, ordinance, rule or regulation, entered, enacted, promulgated, enforced or issued by any court or other Governmental Entity of competent jurisdiction or other legal restraint or prohibition affecting the Closing or seeking to prohibit the transactions contemplated under this Agreement (collectively, "Restraints") shall be in effect; *provided, however*, that each of the parties shall have used its commercially reasonable efforts to prevent the entry of any such Restraints and to appeal as promptly as possible any such Restraints that may be entered.

(d) HSR Act. Any applicable waiting period (and any extensions thereto), filings or approvals under the HSR Act applicable to the transaction contemplated by this Agreement shall have expired, been terminated, been made, or been obtained.

6.2 Conditions to Obligations of Acquiror. The obligation of Acquiror to effect the Merger is further subject to satisfaction or waiver of the following conditions:

(a) Representations and Warranties. Each of the representations and warranties of the Company set forth herein shall be true and correct, in all materials respects, both when made and at and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date); *provided, however,* that any representation or warranty contained in **Section 3.1** which contains an express materiality exception shall be accurate in all respects as written in **Article 3**.

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date.

(c) No Material Adverse Change. At any time after the date of this Agreement there shall not have occurred any Material Adverse Change.

(d) Monthly Revenue-One Month. The Company’s Monthly Recurring Revenue for the first full month immediately preceding the Closing Date, calculated in a manner consistent with the accounting principles utilized by the Company (the “Closing Month Revenue”), shall be no less than $7,600,000 (“Closing Month Revenue Minimum”); provided, however, that in the event that the first full month immediately preceding the Closing Date is February 2004, the Closing Month Revenue Minimum shall be $7,300,000.

(e) Net Book Value of Inventory. The net book value of the Company’s inventory, on the last day of the month preceding the Closing Date, prepared in a manner consistent with the accounting principles utilized by the Company (the “Closing Inventory”), shall be no less than $36,000,000 (net of 30-days past due).

(f) Noncompetition Agreements. The Executive Officers shall have entered into the Noncompetition Agreements with Acquiror.

(g) Opinion of Counsel. The Acquiror shall have received an opinion dated the Closing Date, from Kahn Kleinman, counsel to the Company, in substantially the form and substance as set forth on Exhibit “C” hereto.

(h) Dissenting Shares. The ten (10) day notice period for dissenter’s demands with respect to the Merger provided by Section 1701.85 of the Ohio Statutes shall have expired, and the number of Dissenting Shares shall not exceed fifteen percent (15%) of the number of outstanding shares of Company Common Stock as of the Effective Time.

(i) Voting Agreement. The Voting Agreement shall remain in full force and effect and the Major Shareholders shall have complied in all respects with the Voting Agreement and shall have performed all of their respective obligations thereunder.

(j) Outstanding Shares. The total number of shares of Company Common Stock outstanding and subject to issuance upon exercise of all Company Stock Options shall not exceed 6,525,735.

(k) Consents. The Company shall have received all of the consents and approvals set forth in **Section 3.1(i)** of the Company Disclosure Schedule, except as otherwise provided on **Section 6.3(k)** of the Company Disclosure Schedule.

(l) Officers’ Certificate. Acquiror shall have received the certificate of the Chief Executive Officer and Chief Financial Officer of the compliance by the Company with the conditions of **Sections 6.2(a), (b),(c), (d)** and **(e)**.

6.3 Conditions to Obligations of the Company. The obligation of the Company to effect the Merger is further subject to satisfaction or waiver of the following conditions:

(a) Representations and Warranties. Each of the representations and warranties of Acquiror set forth herein shall be true and correct, in all material respects, both when made and at and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), *provided*, *however*, that any representation or warranty contained in **Section 3.2** which contains an express materiality exception shall be accurate in all respects as written in **Article 3**.

(b) Performance of Obligations of Acquiror. Acquiror shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date.

6.4 Frustration of Closing Conditions. Neither Acquiror nor the Company may rely on the failure of any condition set forth in **Section 6.1** (Conditions to Each Party's Obligation to Effect the Merger), **Section 6.2** (Conditions to Obligations of the Acquiror),or **Section 6.3** (Conditions to Obligations of the Company), as the case may be, to be satisfied if such failure was caused by such party's failure to use commercially reasonable efforts to consummate the Merger and the other transactions contemplated by this Agreement, as required by and subject to **Section 5.3** (Commercially Reasonable Efforts; Cooperation).

6.5 Postponement of Closing. In the event all of the conditions set forth in **Section 6.1** and **Sections 6.2(c), (h), (i), (j)** and **(k)** shall have been satisfied during the first four (4) days of a calendar month, the parties agree that the Company can postpone the Closing Date until the next Business Day.

ARTICLE 7
TERMINATION, AMENDMENT AND WAIVER

7.1 Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after the Company Shareholder Approval:

(a) By mutual written consent of Acquiror and the Company;

(b) By either Acquiror or the Company:

(i) if the Merger shall not have been consummated by June 30, 2004; provided, however, that the right to terminate this Agreement pursuant to this **Section 7.1(b)(i)** shall not be available to any party whose failure to perform any of its obligations under this Agreement is the basis for the failure of the Merger to be consummated by such time; and further provided, that if the condition set forth in **Section 6.1(d)** has not been satisfied on June 30, 2004, and on such date, the conditions set forth in **Sections 6.1(a)** and **(c)** and **Sections 6.2(c), (h), (i), (j)** and **(k)** shall have been satisfied, then the date shall be August 2, 2004.

(ii) if the Company Shareholder Approval shall not have been obtained at a Company Shareholders Meeting duly convened therefor or at any adjournment or postponement thereof; or

(iii) if any Restraint having any of the effects set forth in **Section 6.1(c)** shall be in effect and shall have become final and nonappealable; *provided*, *however*, that the party seeking to terminate this Agreement pursuant to this **Section 7.1(b)(iii)** shall have used commercially reasonable efforts to prevent the entry of and to remove such Restraint;

(c) By Acquiror, if the Company shall have breached or failed to perform in any of its representations, warranties, covenants or other agreements contained in this Agreement, such that the conditions set forth in **Section 6.2(a)** or **Section 6.2(b)** would not be satisfied; *provided*, *however*, that the Acquiror may not terminate under this section if such breach or failure (A) is cured by the Company within thirty (30) days after written notice thereof or (B) is capable of being cured by the Company and the Company continues to exercise reasonable efforts to cure such breach.

(d) By the Company, if Acquiror shall have breached or failed to perform in any of its representations, warranties, covenants or other agreements contained in this Agreement, such that the conditions set forth in **Section 6.3(a)** or **Section 6.3(b)** would not be satisfied; *provided*, *however*, that the Company may not terminate under this section if such breach or failure is (A) cured by the Acquiror within thirty (30) days after written notice thereof or (B) is capable of being cured by Acquiror and the Acquiror continues to exercise reasonable efforts to cure such breach;

(e) By the Company upon the Company's execution of a binding agreement with a third party with respect to a Company Takeover Proposal;

(f) By Acquiror, if the Company or the Board of Directors of the Company shall have (i) withdrawn or modified, in a manner adverse to Acquiror or Merger Sub,(x) the approval by the Board of Directors of the Company of this Agreement or the transactions contemplated hereby or (y) the recommendation of the Company's board of directors that the shareholders approve this Agreement and the Merger (an "Adverse Recommendation") (it being understood and agreed that any communication by the Company or its board of directors to the shareholders that indicates that the board of directors had determined not to withdraw or modify such recommendation, in whole or in part, because such action would or might give rise to a right on the part of Acquiror to terminate this Agreement and/or obligate the Company to comply with the provisions of **Section 7.3(a)** of this Agreement shall nevertheless be deemed to be an Adverse Recommendation), or (ii) approved or entered into a definitive agreement with respect to a Company Takeover Proposal with a third party;

(g) By Acquiror in the event there is a Material Adverse Change;

(h) By Acquiror in the event that Governmental Entities require the divestiture of 16 or more stores of the Company, Acquiror and its subsidiaries; or

(i) By Acquiror in the event the condition in **Section 6.2(i)** is not satisfied.

7.2 Effect of Termination. In the event of termination of this Agreement by either the Company or Acquiror as provided in **Section 7.1**, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Acquiror or the Company, other than the provisions of **Section 5.2(a)**, this **Section 7.2**, **Section 7.3** and **Article 8**, which provisions survive such termination; *provided*, *however*, that nothing herein shall relieve any party from any liability for any willful and material breach by such party of any of its representations, warranties, covenants or agreements set forth in this Agreement.

7.3 Fees and Expenses.

(a) Expenses. If this Agreement is terminated (i) in connection with any of the circumstances described in **Section 7.3(b)**, or (ii) in connection with any of the circumstances described in **Section 7.1(c)**, the Company shall reimburse Acquiror and Merger Sub for all reasonable out-of-pocket expenses and fees payable by Acquiror or Merger Sub in connection with the proposed Merger; *provided*, *however*, that the Company shall not be obligated to reimburse Acquiror and Merger Sub for expenses in excess of Five Hundred Thousand Dollars ($500,000) in the aggregate. Any such required reimbursement shall take place on the later of the termination of this Agreement or submission of evidence of such incurred expenses to the Company.

(b) Termination Fee. If this Agreement is terminated pursuant to **Section 7.1(e)** or **Section 7.1(f)**, or if this Agreement is terminated pursuant to **Section 7.1(b)(ii)** or **Section 7.1(i)**, then the Company shall pay Buyer a fee of Three Million Seven Hundred Fifty Thousand Dollars ($3,750,000) in cash, which amount shall be payable in same day funds (the “Termination Fee”) simultaneously with such termination of this Agreement.

(c) Other Expenses. Except as provided otherwise in paragraph (a) above or **Section 5.3(b)**, all costs and expenses incurred in connection with this Agreement, and the transactions contemplated hereby shall be paid by the party incurring such expenses, whether or not the Merger is consummated.

ARTICLE 8
GENERAL PROVISIONS

8.1 Survival of Representations and Warranties. None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This **Section 8.1** shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

8.2 Notices. All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed) or sent by overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a)	if to the Company, to:	Rainbow Rentals, Inc. 3711 Starr Centre Drive Canfield, Ohio 44406 Facsimile No.: (330) 533-8658 Attention: Wayland J. Russell
	with a copy to:	Kahn Kleinman, A Legal Professional Association

2600 Erieview Tower
1301 East Ninth Street
Cleveland, Ohio 44114-1824
Facsimile No.: (216) 623-4912
Attention: Marc H. Morgenstern, Esq.
And: Michael A. Ellis, Esq.

(b) if to Acquiror or Merger Sub, to:

Rent-A-Center, Inc.
5700 Tennyson Parkway, Third Floor
Plano, Texas 75024
Facsimile No.: 972-943-0116
Attention: Mark E. Speese

with a copy to:

Winstead Sechrest & Minick P.C.
1201 Elm Street, Suite 5400
Dallas, Texas 75270
Facsimile No.: (214) 745-5390
Attention: Thomas W. Hughes, Esq.

Notice given by the telecopier will be deemed delivered on the day the sender receives telecopier confirmation that such notice was reached at the telecopier number of the addressee. Notices delivered personally shall be deemed delivered as of the actual receipt and overnight couriered notices shall be deemed delivered one day after sending.

8.3 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

8.4 Entire Agreement; No Third-Party Beneficiaries. This Agreement (including the documents and instruments referred to herein), (a) constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement and (b) except for the provisions of **Section 5.4** and **Section 5.6**, are not intended to confer upon any Person other than the parties any rights or remedies.

8.5 Governing Law. This Agreement and the agreements, instruments, and documents contemplated hereby unless otherwise noted, shall be governed by, and construed in accordance with, the laws of the State of Delaware , without regard to principles of conflict of laws thereof.

8.6 Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of the other parties; *provided, however*, that Acquiror and Merger Sub may assign their respective rights and obligations hereunder to any direct or indirect wholly-owned subsidiary of Acquiror. Any assignment in violation of the preceding sentence shall be void. Subject to the preceding two sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

8.7 Consent to Jurisdiction. Each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any federal court located in the State of Delaware or any Delaware state court, in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a federal court sitting in the State of Delaware or a Delaware state court.

8.8 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. References to Sections and Articles refer to sections and articles of this Agreement unless otherwise stated.

8.9 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner so that the transactions contemplated hereby are fulfilled to the extent possible.

8.10 Amendment. This Agreement may be amended by the parties upon action taken by or on behalf of their respective boards of directors at any time before or after the Company Shareholder Approval; *provided*, *however*, that after any such Company Shareholder Approval, there shall not be made any amendment affecting the Merger Consideration or that by law requires further approval by the shareholders of the Company without the further approval of such shareholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

8.11 No Consequential Damages. Notwithstanding anything to the contrary elsewhere in this Agreement, no party (or its Affiliates) shall, in any event, be liable to any other party (or its Affiliates) for any consequential damages, including, but not limited to, loss of revenue or income, cost of capital, or loss of business reputation or opportunity relating to the breach or alleged breach of this Agreement.

8.12 Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of any party hereto in the exercise of any right hereunder will impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor will any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not alternative to or exclusive to, and not exclusive of, any rights or remedies otherwise available.

8.13 Extension; Waiver. At any time prior to the Effective Time, a party may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties of another party contained in this Agreement or in any document delivered pursuant to this Agreement or (c) subject to the proviso of **Section 8.11**, waive compliance by any party with any of the agreements or conditions contained in this

Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

8.14 Specific Performance. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement required to be performed by the Company were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that Acquiror shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction without the necessity of posting a bond, this being in addition to any other remedy to which Acquiror is entitled at law or in equity.

[This space left blank intentionally.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement and Plan of Merger to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

RAINBOW RENTALS, INC.

By: /s/ Wayland J. Russell

Name: Wayland J. Russell

Title: CEO and Chairman

RENT-A-CENTER, INC.

By: /s/ Mark E. Speese

Name: Mark E. Speese

Title: Chairman and CEO

EAGLE ACQUISITION SUB, INC.

By: /s/ Mark E. Speese

Name: Mark E. Speese

Title: President

APPENDIX A

INTERPRETATION

When a reference is made in this Agreement to an Article, Section or Exhibit, such reference shall be to an Article or Section of, or an Exhibit to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”. The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns.

DEFINITIONS

For purposes of this Agreement:

“Acquiror” has the meaning set forth in the Recitals.

“Affiliate” of any Person means another Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such first Person.

“Aggregate Merger Consideration” has the meaning set forth in Section 2.4(a).

“Agreement” has the meaning set forth in the Recitals.

“Benefit Plans” has the meaning set forth in Section 3.1(m)(i).

“Business Day” shall mean any day other than a day on which banks in the States of Ohio, Texas, or New York are authorized or obligated to be closed.

“Certificates” has the meaning set forth in Section 2.3(b).

“Certificate of Merger” has the meaning set forth in Section 1.3.

“Closing” has the meaning set forth in Section 1.2.

“Closing Date” has the meaning set forth in Section 1.2.

“Code” means the Internal Revenue Code of 1986, as amended.

“Company” has the meaning set forth in the Recitals.

“Company Common Stock” has the meaning set forth in the Recitals.

“Company Disclosure Schedule” means the schedule referenced in Section 3.1.

“Company Permits” has the meaning set forth in Section 3.1(i).

“Company Preferred Stock” has the meaning set forth in Section 3.1(c).

“Company SEC Documents” has the meaning set forth in Section 3.1(f).

“Company Stock Options” has the meaning set forth in Section 3.1(c).

“Company Stock Plans” has the meaning set forth in Section 3.1(c).

“Company Shareholder Approval” has the meaning set forth in Section 3.1(u).

“Company Shareholders Meeting” has the meaning set forth in Section 5.1(b).

“Company Takeover Proposal” means any inquiry, proposal or offer from any person relating to any (a) direct or indirect acquisition or purchase of a business that constitutes 25% or more of the net revenues, net income or the assets of the Company, taken as a whole, (b) direct or indirect acquisition or purchase of 25% or more of any class of equity securities of the Company whose business constitutes 25% or more of the net revenues, net income or assets of the Company, taken as a whole, (c) tender offer or exchange offer that if consummated would result in any person beneficially owning 25% or more of any class of equity securities of the Company whose business constitutes 25% or more of the net revenues, net income or assets of the Company, taken as a whole, or (d) merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company whose business constitutes 50% or more of the net revenues, net income or assets of the Company, taken as a whole, other than the transactions contemplated by this Agreement.

“Consent” shall mean any approval consent, ratification, permission, waiver or authorization (including any License or Governmental authorization).

“Consultants” shall have the meaning set forth in Section 5.8.

“Consulting Agreements” shall have the meaning set forth in Section 5.8.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

“Definitive Proxy Statement” has the meaning set forth in Section 5.1(a).

“Dissenting Shares” has the meaning set forth in Section 2.5.

“Effective Time” has the meaning set forth in Section 1.3.

“Eligible Option Holders” has the meaning set forth in Section 2.2.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“ERISA Affiliate” means any trade or business, whether or not incorporated, that together with the Company would be deemed to be a “single employer” within the meaning of Section 4001(b) of ERISA.

“Exchange Act” means the Securities Exchange Act of 1934.

“Exchange Agent” has the meaning set forth in Section 2.3(a).

“Exchange Fund” has the meaning set forth in Section 2.3(a).

“Fairness Opinion” shall mean the opinion referenced in Section 3.1(o).

“Financial Advisor” means NatCity Investments, Inc.

“Governmental Entity” has the meaning set forth in Section 3.1(e).

“HSR Act” has the meaning set forth in Section 3.1(e).

“Indebtedness” means (without duplication), with respect to any Person, whether recourse is to all or a portion of the assets of such Person, (i) the principal of and premium, if any, in respect of any indebtedness of such Person for money borrowed, (ii) the principal, premium, if any, and interest of such Person with respect to obligations evidenced by bonds, debentures, notes or, except for accrued liabilities arising in the ordinary course of business, other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses (other than trade payables which are not overdue or in default), (iii) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto) but only to the extent of drawings thereunder, (iv) every obligation of such Person issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable or accrued liabilities arising in the ordinary course of business which are not overdue or in default), (v) every capital lease obligation (determined in accordance with GAAP) of such Person, (vi) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided, however, that the amount of such Indebtedness shall be the lesser of (A) the fair market value of such asset at such date of determination and (B) the amount of such Indebtedness of such other Persons, (vii) every obligation to pay rent or other payment amounts of such Person with respect to any sale-leaseback transaction to which such Person is a party, payable through the stated maturity of such sale-leaseback transaction, (viii) factoring arrangements of such Person, whether or not such arrangements appear on the balance sheet of such Person; and (ix) every obligation of the type referred to in clauses (i) through (viii) of another Person the payment of which, in any case, such Person has guaranteed or is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise.

"Indemnitees" have the meaning set forth in Section 5.4(a).

"Intellectual Property" has the meaning set forth in Section 3.1(r).

"Knowledge" means the actual knowledge, after due inquiry, of the Company's Chief Executive Officer, the President, the Chief Operating Officer, and the Chief Financial Officer, and the actual knowledge of the Marketing Director, Vice-President, Controller and Director of Human Resources as it relates to their specific assigned areas.

"Legal Requirement" means any federal, state, local, municipal, or other order, constitution, law, rule, ordinance, permit, judgment, principle of common law, regulation, statute or treaty.

"Lien" means any pledge, claim, lien, tax, charge, encumbrance or security interest of any kind or nature whatsoever.

"Material Adverse Change" means any Material Adverse Effect and, specifically including:

(a) The commencement of any actions, suits, investigations, complaints or proceedings, at law or in equity, in any court or before any Governmental Entity, by a person or persons seeking class action status and alleging violation of the provisions of the Rental Purchase Agreements, rent-to-own statutes or any other consumer protection law; provided that such action involves five (5) or more stores; and

(b) The commencement of any actions, suits, investigations, complaints, or proceedings, at law or in equity, in any court or before any Governmental Entity, by a person or persons seeking class action status and alleging violations of federal or state laws respecting employment, including, but not limited to, gender, race, disability, national origin or age discrimination, violations of the Occupational Safety and Health Act of 1970, as amended, Family and Medical Leave Act of 1993, as amended, terms and conditions of employment or the federal or state Legal Requirements regarding wages and hours; provided, however, that the commencement of any such actions, suits, investigations, complaints or proceedings shall not constitute a Material Advance Change in the event the Company can demonstrate to the reasonable satisfaction of the Acquiror that the potential size of the purported class does not exceed twenty-five (25) persons.

"Material Adverse Effect" means any change, effect, event, occurrence or state of facts that is, has had or will have a material and adverse effect to the business, condition (financial or other), results of operations, or properties of the Company taken as a whole, other than any change, effect, event or occurrence (i) relating to the economy or securities markets of the United States or any other region in general, or (ii) relating to its business, financial condition or results of operations that has been disclosed in writing to the other party prior to the date of this Agreement.

"Material Contract" shall mean (i) any contract within the meaning set forth in Item 601(b)(10) of Regulation S-K of the SEC; (ii) any noncompetition agreement or other agreement that limits or will limit the Company for engaging in any line of business, (iii) any agreement, contract or commitment not in the ordinary course of business involving the excess of $50,000; (iv) the scheduled severance payments and Stay Bonuses and Change of Control Agreements; (v) any franchise agreement, (vi) any contract or agreement relating to the acquisition or disposition of assets having a value in excess of $100,000 other than the purchase or sale of inventory in the ordinary course of business; (vii) any material licenses, registrations or memberships required by a Government Entity, (viii) any shareholder, voting trust or similar contract or agreement relating to the voting of shares of Company Common Stock, (iv) joint venture agreements, partnership agreements and other similar contracts involving a sharing of profits and expenses, (x) any material agreement or commitment relating to the borrowing of money in excess of $100,000 or guaranty, including security agreement therewith, (xi) the Leases, (xii) contracts and agreements for the purchase of inventories, goods or other materials, by or for the furnishing of services to the Company that (A) requires payments in excess of $150,000 or (B) are not terminable by the Company on notice of ninety (90) days or less without penalty, and (xiii) all employment agreements.

"Material Supplier" has the meaning set forth in Section 3.1(t).

"Merger" has the meaning set forth in the Recitals.

"Merger Consideration" has the meaning set forth in Section 2.1(b).

"Merger Sub" has the meaning set forth in the Recitals.

"Monthly Recurring Revenues" means all of the revenues in any month from all Rental Purchase Agreements (including, without limitation, rental income (including final month(s) rental or sale price), reinstatement fees and in-home pick-up fees), but not including retail sales during the month, as shown on the unaudited Company-generated monthly reports, prepared on a consistent basis in accordance with past practices. Monthly Recurring Revenues does not include revenue from merchandise sales or from the exercise of early purchase options under Rental Purchase Agreements.

"Ohio Statutes" means the Ohio General Corporation Law.

"Option Shares Merger Consideration" has the meaning set forth in Section 2.2.

"Person" means an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization or other entity.

"Preliminary Proxy Statement" has the meaning set forth in Section 5.1(a).

"Proxy Statement" has the meaning set forth in Section 3.1(e).

"Purchase Price Reduction" has the meaning set forth in Section 2.3(a) hereof.

"Rental Purchase Agreement" has the meaning set forth in Section 3.1(k).

"Restraints" has the meaning set forth in Section 6.1(c).

"SEC" means the United States Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933.

"Stock Reference Date" has the meaning set forth in Section 3.1(c).

"Subsidiary" of any Person means another Person of which sufficient voting securities, other voting ownership, or voting partnership interests (or, if there are no such voting interests, 50% or more of the equity interests) of such Person to elect at least a majority of its Board of Directors or other governing body are owned, directly or indirectly, by such first Person.

"Surviving Corporation" has the meaning set forth in Section 1.1.

"Taxes" means all (x) federal, state, local or foreign net and gross income, alternative or add-on minimum, environmental, gross receipts, ad valorem, value added, goods and services, capital stock, profits, license, single business, employment, severance, stamp, unemployment, customs, property, sales, excise, use, occupation, service, transfer, payroll, social security, franchise, withholding and other taxes or similar governmental duties, charges, fees, levies or other assessments including any interest, penalties or additions with respect thereto, (y) liability for the payment of any amounts of the type described in clause (x) as a result of being a member of an affiliated, consolidated, combined or unitary group, and (z) liability for the payment of any amounts as a result of being party to any tax sharing agreement or as a result of any express or implied obligation to indemnify any other person with respect to the payment of any amounts of the type described in clause (x) or (y).

"Termination Fee" has the meaning set forth in Section 7.3(b).

"Voting Agreement" has the meaning set forth in the Recitals.

Exhibit 4.6

RENT-A-CENTER, INC.,
as Issuer,

the **GUARANTORS** named herein,
as Guarantors,

and

THE BANK OF NEW YORK
as Trustee

FIRST SUPPLEMENTAL INDENTURE

Dated as of December 4, 2003

to

INDENTURE

Dated as of May 6, 2003

between

RENT-A-CENTER, INC., as Issuer,

the **GUARANTORS** named therein, as Guarantors,

and

THE BANK OF NEW YORK, as Trustee

$300,000,000
Series B
7 1/2% Senior Subordinated Notes due 2010

This **FIRST SUPPLEMENTAL INDENTURE**, dated as of December 4, 2003, is entered into by and among Rent-A-Center, Inc., a Delaware corporation (the "***Company***"), Rent-A-Center East, Inc., a Delaware corporation ("***RAC East***"), ColorTyme, Inc., a Texas corporation ("***ColorTyme***"), Rent-A-Center West, Inc., a Delaware corporation ("***RAC West***"), Get It Now, LLC, a Delaware limited liability company ("***Get It Now***"), Rent-A-Center Texas, L.P., a Texas limited partnership ("***RAC Texas, LP***"), Rent-A-Center Texas, L.L.C., a Nevada limited liability company ("***RAC Texas, LLC***"), Rent-A-Center International, Inc., a Delaware corporation ("***RAC International***"), Rent-A-Center Addison, L.L.C., a Delaware limited liability company ("***RAC Addison***"), and The Bank of New York, a New York banking corporation, as Trustee (the "***Trustee***").

WHEREAS, the Company has heretofore executed and delivered to the Trustee an Indenture, dated as of May 6, 2003, by and among the Company, RAC East, ColorTyme, RAC West, Get It Now, RAC Texas, LP, RAC Texas, LLC and the Trustee (the "***Indenture***"), providing for the issuance of its 7½% Series B Senior Subordinated Notes due 2010 (the "***Notes***"); and

WHEREAS, RAC East, ColorTyme, RAC West, Get It Now, RAC Texas, LP and RAC Texas, LLC are currently Guarantors under the Indenture; and

WHEREAS, RAC East has formed RAC International as a wholly-owned subsidiary of RAC East; and

WHEREAS, in connection with the formation of RAC International, the Board of Directors of the Company has designated RAC International as a Restricted Subsidiary under the Indenture; and

WHEREAS, RAC International has agreed to become a Guarantor by guaranteeing the obligations of the Company under the Indenture in accordance with the terms thereof; and

WHEREAS, pursuant to Section 1020 of the Indenture, the addition of RAC International as a Guarantor is required under the Indenture; and

WHEREAS, RAC International has been duly authorized to enter into, execute and deliver this First Supplemental Indenture; and

WHEREAS, RAC Texas, LP has formed RAC Addison as a wholly-owned subsidiary of RAC Texas, LP; and

WHEREAS, from time to time, RAC Texas, LP intends to transfer certain assets of RAC Texas, LP to RAC Addison (the "***Asset Transfer***"); and

WHEREAS, in connection with the formation of RAC Addison and the resulting Asset Transfer, the Board of Directors of the Company has designated RAC Addison as a Restricted Subsidiary under the Indenture; and

WHEREAS, pursuant to Sections 1009, 1012 and 1017 of the Indenture, the Asset Transfer is permitted under the Indenture; and

WHEREAS, in partial consideration for the Asset Transfer, RAC Addison has agreed to become a Guarantor by guaranteeing the obligations of the Company under the Indenture in accordance with the terms thereof; and

WHEREAS, pursuant to Section 1020 of the Indenture, the addition of RAC Addison as a Guarantor is required under the Indenture; and

WHEREAS, RAC Addison has been duly authorized to enter into, execute and deliver this First Supplemental Indenture.

NOW, THEREFORE, for and in consideration of the premises and covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company, RAC East, ColorTyme, RAC West, Get It Now, RAC Texas, LP, RAC Texas, LLC, RAC International, RAC Addison and the Trustee agree as follows:

SECTION 1. Capitalized terms used herein but not defined herein shall have the meaning provided in the Indenture.

SECTION 2. The Trustee hereby consents to the addition of RAC International and RAC Addison as additional Guarantors under the Indenture. As of the date hereof (the "***Effective Time***"), RAC International and RAC Addison shall become, and each of RAC East, ColorTyme, RAC West, Get It Now, RAC Texas, LP and RAC Texas, LLC shall continue to be, a "Guarantor" under and as defined in the Indenture, and at the Effective Time, RAC International and RAC Addison shall assume all the obligations of a Guarantor under the Notes and the Indenture as described in the Indenture. RAC International and RAC Addison hereby, jointly and severally, unconditionally guarantee the full and prompt payment of the principal of, premium, if any, and interest on the Notes and all other obligations of the Issuer and the Guarantors under the Indenture in accordance with the terms of the Notes and the Indenture.

SECTION 3. Except as expressly supplemented by this First Supplemental Indenture, the Indenture and the Notes issued thereunder are in all respects ratified and confirmed and all of the rights, remedies, terms, conditions, covenants and agreements of the Indenture and Notes issued thereunder shall remain in full force and effect.

SECTION 4. This First Supplemental Indenture is executed and shall constitute an indenture supplemental to the Indenture and shall be construed in connection with and as part of the Indenture. This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the jurisdiction that governs the Indenture and its construction.

SECTION 5. This First Supplemental Indenture may be executed in any number of counterparts, each of which shall be deemed to be an original for all purposes; but such counterparts shall together be deemed to constitute but one and the same instrument.

SECTION 6. Any and all notices, requests, certificates and other instruments executed and delivered after the execution and delivery of this First Supplemental Indenture may refer to the Indenture without making specific reference to this First Supplemental Indenture, but nevertheless all such references shall include this First Supplemental Indenture unless the context otherwise requires.

SECTION 7. This First Supplemental Indenture shall be deemed to have become effective upon the date first above written.

SECTION 8. In the event of a conflict between the terms of this First Supplemental Indenture and the Indenture, this First Supplemental Indenture shall control.

SECTION 9. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this First Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Company, RAC East, ColorTyme, RAC West, Get It Now, RAC Texas, LP, RAC Texas, LLC, RAC International and RAC Addison.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have caused this First Supplemental Indenture to be duly executed as of the day and year first above written.

THE BANK OF NEW YORK,
as Trustee

By: /s/ Van U. Brown

Name: Van U. Brown

Title: Vice President

RENT-A-CENTER, INC.

By: /s/ Mitchell E. Fadel
Mitchell E. Fadel
President and Chief Operating Officer

RENT-A-CENTER EAST, INC.

By: /s/ Mitchell E. Fadel
Mitchell E. Fadel
Vice President

COLORTYME, INC.

By: /s/ Mitchell E. Fadel
Mitchell E. Fadel
Vice President

RENT-A-CENTER WEST, INC.

By: /s/ Mitchell E. Fadel
Mitchell E. Fadel
Vice President

GET IT NOW, LLC

By: /s/ Mitchell E. Fadel
Mitchell E. Fadel
Vice President

RENT-A-CENTER TEXAS, L.P.

By: Rent-A-Center East, Inc,
its general partner

By: /s/ Mitchell E. Fadel
Mitchell E. Fadel
Vice President

RENT-A-CENTER TEXAS, L.L.C.

By: /s/ James Ashworth
James Ashworth
President and Secretary

RENT-A-CENTER INTERNATIONAL, INC.

By: /s/ Mitchell E. Fadel
Mitchell E. Fadel
Vice President

RENT-A-CENTER ADDISON, L.L.C.

By: /s/ Mitchell E. Fadel
Mitchell E. Fadel
Vice President

Exhibit 10.7

FIRST AMENDMENT TO CREDIT AGREEMENT
AND
GUARANTEE AND COLLATERAL AGREEMENT

THIS FIRST AMENDMENT (this “Amendment”) is made as of May 28, 2003 among RENT-A-CENTER, INC. (the “Borrower”), RENT-A-CENTER EAST, INC. (“RAC East”), COLORTYME, INC. (“Colortyme”), RENT-A-CENTER WEST, INC. (“RAC West”), REMCO AMERICA, INC. (“Remco”), GET IT NOW, LLC (“Get It Now”), RENT-A-CENTER TEXAS, L.P. (“RAC Texas LP”), RENT-A-CENTER TEXAS, L.L.C. (“RAC Texas LLC”, and together with the Borrower, RAC East, Colortyme, RAC West, Remco, Get It Now and RAC Texas LP, the “Grantors”) and LEHMAN COMMERCIAL PAPER, INC., as administrative agent (the “Administrative Agent”).

WHEREAS

A. The Borrower, the several banks and other financial institutions or entities from time to time party thereto (the “Lenders”), the Administrative Agent, Morgan Stanley Senior Funding Inc., as documentation agent, JPMorgan Chase Bank and Bear Stearns & Co. Inc., as syndication agents and Wachovia Bank, National Association, UBS Warburg LLC, United Overseas Bank and Credit Lyonnais, as managing agents, are party to a Credit Agreement dated as of May 28, 2003 (the “Credit Agreement”). Unless otherwise defined herein, all capitalized terms used in this Amendment that are defined in the Credit Agreement shall have the respective meanings assigned to them in the Credit Agreement.

B. The Grantors and the Administrative Agent are party to a Guarantee and Collateral Agreement dated as of May 28, 2003 (the “Guarantee and Collateral Agreement”).

C. The Grantors and Administrative Agent, which has received the consent of the Required Lenders, desire to enter into this Amendment in order to modify the Credit Agreement and the Guarantee and Collateral Agreement as set forth herein.

NOW THEREFORE

In consideration of the foregoing and the mutual promises contained herein, the parties hereby agree as follows:

1. Amendments to the Credit Agreement.

a. The definition of “Asset Sale” in Section 1.1 of the Credit Agreement shall be amended by deleting the word “or” after “(i)” in the second line thereof and inserting a comma in lieu thereof, and by inserting “or (k)” after "(j)” in the second line thereof.

b. Section 1.1 of the Credit Agreement shall be amended by inserting therein the following defined term and in its correct alphabetical order:

> "Margin Capital Stock": Capital Stock issued by the Borrower that (i) constitutes "margin stock" within the meaning of such term under Regulation U as now or from time to time hereafter in effect and (ii) would, taking into account all other "margin stock" (within the meaning of such term under Regulation U as now or from time to time hereafter in effect) held by the Borrower or any of its Subsidiaries, cause the value of all such "margin stock" to exceed 25% of the value of all assets of the Borrower and its Subsidiaries that directly or indirectly secure (within the meaning of Regulation U) the Obligations.

c. Section 4.11 of the Credit Agreement shall be amended by deleting the phrase "or for any purpose that violates" that appears after the words "from time to time hereafter in effect", and by inserting in lieu thereof the phrase "except in compliance with" such that Section 4.11 of the Credit Agreement shall read in its entirety as follows:

> No part of the proceeds of any Loans will be used for "buying" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U as now and from time to time hereafter in effect except in compliance with the provisions of the Regulations of the Board. If requested by any Lender or the Administrative Agent, the Borrower will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form G-3 or FR Form U-1, as applicable, referred to in Regulation U.

d. Section 6.9(a) of the Credit Agreement shall be amended by adding the phrase "(v) all capital stock issued by the Borrower," after the phrase "other than" in the second line of Section 6.9(a).

e. Clause (i) of Section 6.11 of the Credit Agreement shall be amended by adding the phrase "(as amended or supplemented with the consent of the Administrative Agent)" after the phrase "April 28, 2003".

f. Section 6 of the Credit Agreement shall be amended by adding the following new Section 6.13 at the end of such Section:

> "Section 6.13. Equity Sales. Ensure that any sale or other Disposition by the Borrower or any of its Subsidiaries (other than by or to Legacy Trust and the Insurance Subsidiary or as otherwise permitted by Sections 7.5(c), 7.5(d), 7.8(e) and 7.8(g)) of Capital Stock for cash proceeds shall be a new issuance of such Capital Stock at any time when the Consolidated Leverage Ratio (determined as at the end of the most recent period of four consecutive fiscal quarters ended prior to the required date of prepayment set forth in Section 2.11(a) for which the relevant financial information is available on a pro forma basis as if such issuance had occurred on the first day of such period) is greater than or equal to 1.5 to 1.0."

g. Section 7.3 of the Credit Agreement shall be amended by deleting the word “and” from the end of Section 7.3(k), redesignating Section 7.3(l) as Section 7.3(m) and inserting the following new Section 7.3(l) after Section 7.3(k):

"(l) Liens on Margin Capital Stock that is held by the Borrower as treasury stock or that is held by any of its Subsidiaries;” and

h. Section 7.5 of the Credit Agreement shall be amended by deleting the word “and” at the end of Section 7.5(i), deleting the period in Section 7.5(j) and inserting a semicolon in its place, adding the word “and” after the semicolon in Section 7.5(j) and inserting the following new Section 7.5(k) after Section 7.5(j):

"(k) Dispositions of Margin Capital Stock that is held as treasury stock by the Borrower or that is held by any of its Subsidiaries.”

i. Section 7.13 of the Credit Agreement shall be amended by adding the phrase “(other than Margin Capital Stock that is held by the Borrower as treasury stock or that is held by any of its Subsidiaries)” after the phrase “suffer to exist any Lien upon any of its property” in the third and fourth lines of Section 7.13.

2. Amendment to the Guarantee and Collateral Agreement. The definition of the term “Excluded Assets” in Section 1.1(b) of the Guarantee and Collateral Agreement shall be amended by inserting “(i)” between the colon and the word “any” at the beginning of the definition, and by inserting the phrase “and (ii) all capital stock issued by the Borrower held by any Grantor” between the word “above” and the period at the end of the definition.

3. Representations and Warranties. Each Grantor represents and warrants that upon execution of this Amendment by each Grantor and upon the effectiveness hereof (a) all representations and warranties contained in the Credit Agreement and the Guarantee and Collateral Agreement are true and correct, (b) no Default or Event of Default has occurred and is continuing, (c) all consents, approvals and authorizations for each Grantor’s execution, delivery and performance of this Amendment have been obtained or made and (d) this Amendment has been duly executed and delivered by each Grantor and constitutes a legal, valid and binding obligation of each Grantor, enforceable against such Grantor in accordance with its terms.

4. Limited Purpose. This Amendment is limited as specified and shall not constitute a modification, acceptance or waiver of any other provision of the Credit Agreement, the Guarantee and Collateral Agreement or any other Loan Document, each of which shall otherwise remain unmodified and in full force and effect.

5. Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts when executed and delivered shall be an original, but all of which together shall constitute one and the

same instrument, and any telecopy or other facsimile transmission of any signature shall be deemed an original signature and shall bind such party.

6. Governing Law. This Amendment shall be governed by and construed in accordance with the law of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective authorized officers as of the date first above written.

RENT-A-CENTER, INC.

By: /s/ Mark E. Speese
Name: Mark E. Speese
Title: Chairman of the Board and Chief Executive Officer

RENT-A-CENTER EAST, INC.

By: /s/ Mark E. Speese
Name: Mark E. Speese
Title: Chairman of the Board and Chief Executive Officer

COLORTYME, INC.

By: /s/ Mitchell E. Fadel
Name: Mitchell E. Fadel
Title: Vice President

RENT-A-CENTER WEST, INC.

By: /s/ Mitchell E. Fadel
Name: Mitchell E. Fadel
Title: Vice President

REMCO AMERICA, INC.

By: /s/ Mitchell E. Fadel
Name: Mitchell E. Fadel
Title: Vice President

GET IT NOW, LLC

By: /s/ Mitchell E. Fadel
Name: Mitchell E. Fadel
Title: Vice President

RENT-A-CENTER TEXAS, L.P.

By: /s/ Mitchell E. Fadel

Name: Mitchell E. Fadel

Title: President and Chief Operating Officer

RENT-A-CENTER TEXAS, L.L.C.

By: /s/ James Ashworth

Name: James Ashworth

Title: President

[Signatures continued on the next page]

LEHMAN COMMERCIAL PAPER INC.,
as Administrative Agent

By: /s/ Francis Chang
Name: Francis Chang
Title: Vice President

Exhibit 10.23

FIRST AMENDMENT TO AMENDED AND RESTATED FRANCHISEE FINANCING AGREEMENT

This First Amendment to Amended and Restated Franchisee Financing Agreement (“Amendment”) is made and entered into by and among Wells Fargo Foothill, Inc., a California corporation (“Lender”), ColorTyme, Inc., a Texas corporation (“ColorTyme”), and Rent-A-Center East, Inc., a Delaware corporation (the “RAC”).

RECITALS

A. Lender, ColorTyme and RAC entered into that certain Amended and Restated Franchisee Financing Agreement dated October 1, 2003 (the “Agreement”).

B. Lender, ColorTyme and RAC desire to amend the Agreement in accordance with the terms of this Amendment.

AGREEMENT

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. All capitalized terms not defined herein shall be construed to have the meaning and definition set forth in the Agreement.

2. Amendments. (a) Section 1.4 of the Agreement is hereby amended in its entirety to read as follows:

“1.4 Credit Limits. When a Line of Credit is established for a Franchisee pursuant to this Agreement, Lender shall fix a credit limit for each of the Franchisee’s Stores of (i) two hundred fifty thousand dollars ($250,000), if such Franchisee is not designated by ColorTyme as having prior “rent-to-own” experience; (ii) three hundred thousand dollars ($300,000), if such Franchisee is designated by ColorTyme as having prior “rent-to-own” experience; or (iii) such other amount as may be agreed upon from time to time by Lender and ColorTyme (the credit limit established for each of Franchisee’s Stores is referred to herein as a “Credit Limit”). The amount of each Credit Limit may be adjusted from time to time upon agreement by Lender and ColorTyme. When a Term Loan is made to a Franchisee pursuant to this Agreement, the principal amount of the Term Loan and the interest thereon shall not be included in or subject to a Credit Limit.”

(b) Section 1.5 of the Agreement is hereby amended in its entirety to read as follows:

“1.5 Advance Limits. The aggregate amount of credit available under each Receivable for all of Franchisee’s Stores that have been open for business for one (1) year or more (notwithstanding the amount of such Franchisee’s Credit Limit(s), in the case of a Line of Credit) including the Credit Limit for such Stores plus each Term Loan related to such Stores shall be limited to the product of the Franchisee’s Average Monthly

Revenue for all Stores that have been open for business for one (1) year or more multiplied by five (the advance limit established for such Franchisee's Stores is referred to herein as the "Advance Limit"). For purposes of this Agreement, a Franchisee's "Average Monthly Revenue" shall mean the average monthly total revenue of the Franchisee (excluding sales tax and excluding revenues from Stores open for business less than one year) from the sale, lease or rental of Inventory and other customary fees, calculated in accordance with generally accepted accounting principles applied on a consistent basis, for the three calendar months preceding the most recent periodic review of such Franchisee's Receivable. Notwithstanding anything in this section to the contrary, if the Advance Limit established pursuant to this section for Stores that have been open for business for one (1) year or more would otherwise be an amount that is less than the then outstanding balance of such Receivable for such Stores (each such Receivable is referred to herein as an "Overline Receivable"), the Advance Limit for such Overline Receivable will be set at the then outstanding balance thereof, and such Overline Receivable will continue to be administered as provided herein, unless Lender and ColorTyme agree otherwise. The Advance Limit for each Store that has not been open for business for one (1) year or more shall be the Credit Limit for such Store plus any Term Loan(s) related to such Store."

(c) Section 1.6 of the Agreement is hereby amended in its entirety to read as follows:

"1.6 Use of Proceeds. Lender will advance funds pursuant to a Franchisee's Line of Credit or Term Loan(s) only for the following purposes: (i) the Franchisee's acquisition of Inventory; (ii) the Franchisee's acquisition or conversion of a Store; (iii) the buyout of an ownership interest in the Franchisee; and/or (iv) the Franchisee's working capital.

(a) Inventory. Advances to a Franchisee for inventory for a Store will be limited to the lesser of (i) the cost of the Inventory acquired by such Franchisee for such Store; (ii) the amount of such Franchisee's Credit Limit for such Store; or (iii) in the case of Stores that have been open for business for one (1) year or more, the amount of the Franchisee's Advance Limit for such Stores after deducting the outstanding balance of all Term Loans to such Franchisee relating to such Stores.

(b) Store Acquisitions and Conversions. Advances to a Franchisee for Store acquisitions and/or conversions (i.e., the acquisition of existing ColorTyme Stores and/or the acquisition of other "rent-to-own" stores for conversion to ColorTyme Stores) will be limited to the lesser of (i) in the case of a store that has been open for business (either as a ColorTyme Store or as another "rent-to-own" store) for one (1) year or more, the product of the Average Monthly Revenue of the individual store multiplied by nine (9); and (ii) the amount that, when added to the Credit Limit and other Term Loans to such Franchisee for all Stores that have been open for business for one (1) year or more, would cause the Debt-to-Revenue Ratio for the Franchisee for such Stores to equal or exceed 5:1. For purposes of this paragraph, "Debt-to-Revenue Ratio" shall mean the ratio of (x) Funded Debt to (y) the Average Monthly Revenue of the Franchisee (calculated on an aggregate basis for all Stores owned and/or operated, including such Store to be acquired or converted, by such Franchisee and any and all affiliates of such Franchisee, each such Store having been open for business for one (1) year or more); and "Funded Debt" shall mean, as of any date, the total amount of liabilities (including the advance contemplated by this paragraph) that would be reflected on the consolidated balance sheet of Franchisee and its parent and any and all subsidiaries and affiliates, if any, in accordance with generally accepted accounting principles applied on a consistent basis. All Advances for Store acquisitions and/or conversions will be subject to the approval of ColorTyme, but shall otherwise be at the sole discretion of Lender.

(c) Franchisee Owner Buyouts. Advances for the buyout of an ownership interest in a Franchisee, either by the Franchisee or by one (1) or more other owners of interests in the Franchisee, will be limited to the amount of the Franchisee's Advance Limits for all of the Franchisee's Stores that have been open for business for one (1) year or more minus the Franchisee's Credit Limits for all such Stores and minus the outstanding balance of all other Term Loans to such Franchisee and owners relating to such Stores. All Advances for Franchisee owner buyouts will be subject to the approval of ColorTyme, but shall otherwise be at the sole discretion of Lender.

(d) Working Capital. Advances to a Franchisee for working capital will be limited to the lesser of (i) the amount by which ColorTyme's minimum working capital requirement exceeds such Franchisee's working capital available from other sources; (ii) sixty thousand and no/100 dollars ($60,000.00); and (iii) the amount of such Franchisee's Advance Limits for all of the Franchisee's Stores that have been open for business for one (1) year or more, minus such Franchisee's Credit Limits for all such Stores and minus the outstanding balance of all other Term Loans to such Franchisee related to such Stores. Financing for working capital will be made available only to Franchisees designated by ColorTyme as having prior "rent-to-own" experience and approved by ColorTyme for such financing in connection with the opening of a Store, but shall otherwise be at the sole discretion of Lender."

(d) Section 1.8 of the Agreement is hereby amended in its entirety to read as follows:

"1.8 Suspension of Advances. Advances to a Franchisee under any Line of Credit for a Store of such Franchisee may, at Lender's sole discretion, be suspended or limited at any time that the unpaid balance of all Advances under all Lines of Credit for such Franchisee's Stores that have been open for business for one (1) year or more, when added to the outstanding principal balance of all Term Loans made to such Franchisee related to such Stores exceeds the product of such Stores' Average Monthly Revenue multiplied by four (4) where (i) the ratio of cash expenses of such Stores (total annual expenses, less depreciation directly related to the operation of such Stores that have been open for business for one (1) year or more, calculated in accordance with generally accepted accounting principles applied on a consistent basis) to total revenue for such Stores (calculated in accordance with generally accepted accounting principles applied on a consistent basis, excluding extraordinary items, based on a three (3) month rolling average) exceeds 64%; (ii) the Franchisee fails to maintain the number of rental contracts for all Stores that have been open for business for one (1) year or more that are seven (7) or more days past due (calculated on a three (3) month rolling average) at 8% or less of its total outstanding rental contracts for such Stores; (iii) expenses of a Store that has been open for business for less than twelve (12) months cause the ratio of actual expenses to actual revenue to exceed the ratio of expenses to revenue reflected in the proforma cash flow projections for that Store; (iv) payments (principal and/or interest) under any Receivable of the Franchisee are more than fifteen (15) days past due; (v) the idle inventory percentage for Stores that have been open for business for one (1) year or more (the quotient of the idle inventory divided by the total inventory, calculated on a three (3) month rolling average and based on the idle inventory and total inventory figures reflected on the Franchisee's monthly royalty reports for such Stores) exceeds twenty-five percent (25%); or (vi) in Lender's determination, the Receivable is otherwise in default."

3. Effect of Amendment. Except as amended hereby, the Agreement shall remain in full force and effect.

4. Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE SUBSTANTIVE LAWS OF THE STATE OF CALIFORNIA.

5. Counterparts. This Amendment may be executed in counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Amendment on this day of December, 2003.

COLORTYME, INC.

By: /s/ Steven Arendt
Title: President/CEO

RENT-A-CENTER EAST, INC.

By: /s/ Mitchell E. Fadel
Title: President

WELLS FARGO FOOTHILL, INC.

By: /s/ David B. Friche

Title: Senior Vice President

SCHEDULE A

TO

CREDIT AND SECURITY AGREEMENT
(THE "AGREEMENT")

A. Credit Limit For Debtor's Stores: The sum of the unpaid balance of all advances made hereunder with respect to each Debtor's store (each, a "Store") shall not exceed the lesser of (1) the Credit Limit for such Store established by Secured Party from time to time and set forth in a notice from Secured Party to Debtor, (2) the cost of the inventory acquired by Debtor for such Store with advances hereunder and (3) if such Store has been open for business for one (1) year or more, the amount of the Debtor's Advance Limit (as defined below) for all Stores that have been open for business for one (1) year or more after deducting the outstanding balance of all advances under Lines of Credit for such Stores plus all term loans made to Debtor by Secured Party (and its predecessors in interest) relating to such Stores. The Credit Limit for each of Debtor's Stores is subject to change from time to time in accordance with the terms of this Agreement.

B. Limitation on Advances to Debtor. Notwithstanding the amount of the Credit Limit for any of Debtor's Stores, from time to time, the sum of the unpaid balance of all advances made hereunder for all of Debtor's Stores that have been open for business for one (1) year or more and the aggregate unpaid balance of all term loans and other loans heretofore, now or hereafter made by Secured Party (and its predecessors in interest) to Debtor relating to such Stores shall not exceed the product of the Debtor's Average Monthly Revenue for such Stores multiplied by five (this advance limit established for such Stores is referred to herein as the "Advance Limit"). For purposes of this Agreement, a Debtor's "Average Monthly Revenue" shall mean the average monthly total revenue of the Debtor from Stores that have been open for business for one (1) year or more (excluding sales tax and excluding revenues from Stores open less than one year) from the sale, lease or rental of inventory and other customary fees, calculated in accordance with generally accepted accounting principles applied on a consistent basis, for the three calendar months preceding the most recent periodic review of Debtor's financial performance.

C. Additional Limitation on Advances to Debtor. Without requiring that Secured Party make any advances to Debtor at any time, Secured Party currently intends to limit or suspend any additional advances under this Agreement, and may decline to fund any separately documented term loans or other loans, if the unpaid balance of all obligations owing by Debtor to Secured Party relating to all Stores of Debtor's that have been open for business for one (1) year or more exceeds the product of the Debtor's Average Monthly Revenue for such Stores multiplied by four (4) and any of the following conditions apply:

(a) Debtor’s cash expenses for all of its Stores that have been open for business for one (1) year or more (total annual expenses, less depreciation directly related to the operation of such Stores that have been open for business for one (1) year or more, calculated in accordance with generally accepted accounting principles applied on a consistent basis) exceed 64% of Debtor’s total revenue for such Stores (calculated in accordance with generally accepted accounting principles applied on a consistent basis, excluding extraordinary items, based on a three (3) month rolling average);

(b) Debtor fails to maintain the number of rental contracts for Stores that have been open for business for one (1) year or more that are seven (7) or more days past due (calculated on a three (3) month rolling average) at 8% or less of its total outstanding rental contracts for all such Stores;

(c) expenses of a Store that has been open for business for less than twelve (12) months cause the ratio of actual expenses to actual revenue to exceed the ratio of expenses to revenue reflected in the proforma cash flow projections for that Store;

(d) any payment (principal and/or interest) of any portion of the Debtor’s obligations to Secured Party is more than fifteen (15) days past due;

(e) the idle inventory percentage for Stores that have been open for business for one (1) year or more (the quotient of the idle inventory divided by the total inventory, calculated on a three (3) month rolling average and based on the idle inventory and total inventory figures reflected on the Debtor’s monthly royalty reports to ColorTyme, Inc. for such Stores) exceeds twenty-five percent (25%); or

(f) Secured Party determines that any portion of the Obligations is in default.

Exhibit 21.1

SUBSIDIARIES

ColorTyme, Inc., a Texas corporation

Eagle Acquisition Sub, Inc., an Ohio corporation

Get It Now, LLC, a Delaware limited liability company

Legacy Drive Trust, organized under the laws of the State of Texas

Legacy Insurance Co., Ltd., a Bermuda Insurance Company

RAC Canada Finance LP, a Canadian limited partnership

RAC Canada Holdings, a Canadian partnership

Remco America, Inc., a Delaware corporation

Rent-A-Center Addison, L.L.C., a Delaware limited liability company

Rent-A-Center East, Inc., a Delaware corporation

Rent-A-Center International, Inc., a Delaware corporation

Rent-A-Center Texas, L.P., a Texas limited partnership

Rent-A-Center Texas, L.L.C., a Nevada limited liability company

Rent-A-Center West, Inc., a Delaware corporation

Rent-A-Centre Canada, Ltd., a Canadian corporation

EXHIBIT 23.1

Consent of Independent Certified Public Accountants

We have issued our report, dated March 31, 2004, accompanying the consolidated financial statements and included in the Annual Report of Rent-A-Center, Inc. and Subsidiaries on Form 10-K/A for the year ended December 31, 2003. We hereby consent to the incorporation by reference of said report in the Registration Statements of Rent-A-Center, Inc. and Subsidiaries on Form S-3 (File No.333-77985), and on Forms S-8 (File No.333-62582), (File No.33-98800), (File No. 333-53471), (File No. 333-66645), (File No. 333-40958) and (File No.333-32296).

/s/ Grant Thornton LLP

Dallas, Texas
July 30, 2004

Exhibit 31.1

I, Mark E. Speese, certify that:

1. I have reviewed this amended annual report on Form 10-K/A of Rent-A-Center, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2004

/s/ Mark E. Speese
Mark E. Speese
Chairman of the Board
and Chief Executive Officer

Exhibit 31.2

I, Robert D. Davis, certify that:

1. I have reviewed this amended annual report on Form 10-K/A of Rent-A-Center, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2004

/s/ Robert D. Davis
Robert D. Davis
Senior Vice President-Finance, Treasurer
and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Amended Annual Report of Rent-A-Center, Inc. (the "***Company***") on Form 10-K/A for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "***Report***"), I, Mark E. Speese, Chairman of the Board and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark E. Speese
Mark E. Speese
Chairman of the Board and
Chief Executive Officer

Dated: July 30, 2004

A signed original of this written statement required by Section 906 has been provided to Rent-A-Center, Inc. and will be retained by Rent-A-Center, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Amended Annual Report of Rent-A-Center, Inc. (the "***Company***") on Form 10-K/A for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "***Report***"), I, Robert D. Davis, Senior Vice President — Finance, Treasurer and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert D. Davis

Robert D. Davis
Senior Vice President –Finance,
Treasurer and Chief Financial Officer

Dated: July 30, 2004

A signed original of this written statement required by Section 906 has been provided to Rent-A-Center, Inc. and will be retained by Rent-A-Center, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.