FORM 10-Q

RENT A CENTER INC DE - RCII

Filed: October 28, 2005 (period: September 30, 2005)

Quarterly report which provides a continuing view of a company's financial position

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2005

Commission File Number 0-25370

Rent-A-Center, Inc.

(*Exact name of registrant as specified in its charter*)

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

**5700 Tennyson Parkway, Suite 100
Plano, Texas 75024
(972) 801-1100**
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

NONE
(Former name, former address and former fiscal year, if changed since last report)

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 ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES ☑ NO ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 26, 2005:

Class	Outstanding
Common stock, $.01 par value per share	70,974,468

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RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)	Three months ended September 30, 2005	2004
	Unaudited	
Revenues		
Store		
Rentals and fees	$ 516,433	$ 516,576
Merchandise sales	39,212	36,265
Installment sales	6,372	5,469
Other	2,938	919
Franchise		
Merchandise sales	7,245	8,967
Royalty income and fees	1,307	1,411
	573,507	569,607
Operating expenses		
Direct store expenses		
Cost of rentals and fees	112,174	112,582
Cost of merchandise sold	30,314	26,978
Cost of installment sales	2,556	2,180
Salaries and other expenses	350,389	326,410
Franchise cost of merchandise sold	6,964	8,585
	502,397	476,735
General and administrative expenses	21,176	18,772
Amortization of intangibles	5,926	2,756
Class action litigation settlement	—	47,000
Restructuring charge	13,028	—
Total operating expenses	542,527	545,263
Operating profit	30,980	24,344
Finance charges from recapitalization	—	4,173
Interest income	(1,331)	(1,391)
Interest expense	11,802	9,914
Earnings before income taxes	20,509	11,648
Income tax expense	9,232	6,075
NET EARNINGS	11,277	5,573
Preferred dividends	—	—
Net earnings allocable to common stockholders	$ 11,277	$ 5,573
Basic earnings per common share	$ 0.15	$ 0.07
Diluted earnings per common share	$ 0.15	$ 0.07

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)	Nine months ended September 30, 2005	2004
	Unaudited	
Revenues		
Store		
Rentals and fees	$ 1,561,694	$ 1,541,459
Merchandise sales	139,480	130,287
Installment sales	19,574	17,968
Other	5,013	2,966
Franchise		
Merchandise sales	26,032	31,099
Royalty income and fees	4,101	4,193
	1,755,894	1,727,972
Operating expenses		
Direct store expenses		
Cost of rentals and fees	338,710	333,868
Cost of merchandise sold	100,606	91,081
Cost of installment sales	8,169	7,802
Salaries and other expenses	1,017,369	946,552
Franchise cost of merchandise sold	24,993	29,691
	1,489,847	1,408,994
General and administrative expenses	60,681	56,350
Amortization of intangibles	10,378	8,402
Class action litigation settlement (reversion)	(8,000)	47,000
Restructuring charge	13,028	—
Total operating expenses	1,565,934	1,520,746
Operating profit	189,960	207,226
Finance charges from recapitalization	—	4,173
Interest income	(4,084)	(4,382)
Interest expense	33,456	30,525
Earnings before income taxes	160,588	176,910
Income tax expense	59,900	67,934
NET EARNINGS	100,688	108,976
Preferred dividends	—	—
Net earnings allocable to common stockholders	$ 100,688	$ 108,976
Basic earnings per common share	$ 1.36	$ 1.38
Diluted earnings per common share	$ 1.34	$ 1.34

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	September 30, 2005 Unaudited	December 31, 2004
ASSETS		
Cash and cash equivalents	$ 52,790	$ 58,825
Accounts receivable, net	19,657	16,269
Prepaid expenses and other assets	42,067	65,050
Rental merchandise, net		
On rent	572,224	596,447
Held for rent	178,825	162,664
Merchandise held for installment sale	2,019	1,311
Property assets, net	143,021	144,818
Goodwill, net	924,292	913,415
Intangible assets, net	4,489	8,989
	$ 1,939,384	$ 1,967,788
LIABILITIES		
Accounts payable — trade	$ 100,549	$ 94,399
Accrued liabilities	187,649	207,835
Deferred income taxes	122,562	163,031
Senior debt	406,625	408,250
Subordinated notes payable	300,000	300,000
Redeemable convertible voting preferred stock	—	2
	1,117,385	1,173,517
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value; 250,000,000 shares authorized; 102,922,951 and 102,297,937 shares issued in 2005 and 2004, respectively	1,029	1,023
Additional paid-in capital	629,501	618,486
Retained earnings	866,446	765,785
Treasury stock, 31,984,999 and 27,900,399 shares at cost in 2005 and 2004, respectively	(674,977)	(591,023)
	821,999	794,271
	$ 1,939,384	$ 1,967,788

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine months ended September 30, 2005	2004
	Unaudited	
Cash flows from operating activities		
Net earnings	$ 100,688	$ 108,976
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation of rental merchandise	332,965	331,918
Depreciation of property assets	40,018	35,591
Amortization of intangibles	14,909	8,402
Amortization of financing fees	1,202	557
Deferred income taxes	(40,469)	(8,724)
Finance charges from recapitalization	—	4,173
Changes in operating assets and liabilities, net of effects of Acquisitions		
Rental merchandise, net	(317,057)	(302,578)
Accounts receivable, net	(3,388)	(506)
Prepaid expenses and other assets	26,834	6,268
Accounts payable — trade	6,149	12,685
Accrued liabilities	(18,180)	87,367
Net cash provided by operating activities	143,671	284,129
Cash flows from investing activities		
Purchase of property assets	(40,974)	(53,387)
Proceeds from sale of property assets	3,504	3,937
Acquisitions of businesses, net of cash acquired	(35,645)	(158,680)
Net cash used in investing activities	(73,115)	(208,130)
Cash flows from financing activities		
Purchase of treasury stock	(83,954)	(169,749)
Exercise of stock options	8,988	13,205
Proceeds from debt	139,300	400,000
Repayments of debt	(140,925)	(398,875)
Net cash used in financing activities	(76,591)	(155,419)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,035)	(79,420)
Cash and cash equivalents at beginning of period	58,825	143,941
Cash and cash equivalents at end of period	$ 52,790	$ 64,521

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

Supplemental cash flow information	Nine months ended September 30, 2005	2004
	(in thousands)	
Cash paid during the period for:		
Interest	$ 26,640	$ 23,521
Income taxes	$ 81,208	$ 66,573
Supplemental schedule of non-cash investing and financing activities		
Fair value of assets acquired	$ 35,645	$ 188,658
Cash paid	$ 32,225	$ 158,680

For the nine months ended September 30, 2005, the difference between the fair value of assets acquired and cash paid is due to indemnification arrangements with respect to stores acquired during the nine months ended September 30, 2005.

For the nine months ended September 30, 2004, the difference between the fair value of assets acquired and cash paid is due to non-cash consideration, including approximately $23.9 million in common stock issued and the approximately $6.1 million in fair value assigned to the stock options assumed in connection with the acquisition of Rent Rite, Inc.

See accompanying notes to consolidated financial statements.

RENT-A-CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. *Significant Accounting Policies and Nature of Operations.*

The interim financial statements of Rent-A-Center, Inc. included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Commission's rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. We suggest that these financial statements be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2004, our Quarterly Report on Form 10-Q for the three months ended March 31, 2005 and our Quarterly Report on Form 10-Q for the six months ended June 30, 2005. In our opinion, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly our results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

Principles of Consolidation and Nature of Operations. These financial statements include the accounts of Rent-A-Center, Inc. and its direct and indirect wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Unless the context indicates otherwise, references to "Rent-A-Center" refer only to Rent-A-Center, Inc., the parent, and references to "we," "us" and "our" refer to the consolidated business operations of Rent-A-Center and all of its direct and indirect subsidiaries.

At September 30, 2005, we operated 2,787 company-owned stores nationwide and in Canada and Puerto Rico, including 21 stores in Wisconsin operated by a subsidiary, Get It Now, LLC, under the name "Get It Now," and seven stores in Canada operated by a subsidiary, Rent-A-Centre Canada, Ltd., under the name "Rent-A-Centre." Rent-A-Center'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., an indirect wholly-owned subsidiary of Rent-A-Center, is a nationwide franchisor of rent-to-own stores. At September 30, 2005, ColorTyme had 287 franchised stores operating in 38 states. 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. The balance of ColorTyme's revenue is generated primarily from royalties based on franchisees' monthly gross revenues.

Cost of Rentals and Fees. Cost of rentals and fees includes depreciation of rental merchandise and costs related to our membership programs which commenced in 2004. Depreciation of rental merchandise is separately identified in Note 2 in the Notes to the Consolidated Financial Statements later in this report.

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 were reserved for issuance under stock options, stock appreciation rights or restricted stock grants. Options granted to our 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 or restricted stock grants and all options have been granted with fixed prices. At September 30, 2005, there were 8,945,209 shares available for issuance under the Plan, of which 4,914,805 shares were allocated to options currently outstanding. However, pursuant to the terms of the Plan, when an optionee leaves our employ, unvested options granted to that employee terminate and become available for re-issuance under the Plan. In addition, vested options not exercised within 90 days from the date the optionee leaves our employ generally terminate and become available for re-issuance under the Plan.

RENT-A-CENTER, INC. AND SUBSIDIARIES

We account for the Plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), 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 market value of the underlying common stock on the date of grant. If we had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), to stock-based employee compensation, net earnings and earnings per share would have decreased as illustrated by the following table:

	Nine months ended September 30,	
	2005	2004
	(In thousands, except per share data)	
Net earnings allocable to common stockholders		
As reported	$ 100,688	$ 108,976
Deduct: Total stock-based employee compensation under fair value based method for all awards, net of related taxes	7,263	9,124
Pro forma	$ 93,425	$ 99,852
Basic earnings per common share		
As reported	$ 1.36	$ 1.38
Pro forma	$ 1.26	$ 1.26
Diluted earnings per common share		
As reported	$ 1.34	$ 1.34
Pro forma	$ 1.24	$ 1.22

	Three months ended September 30,	
	2005	2004
	(In thousands, except per share data)	
Net earnings allocable to common stockholders		
As reported	$ 11,277	$ 5,573
Deduct: Total stock-based employee compensation under fair value based method for all awards, net of related taxes	2,844	2,725
Pro forma	$ 8,433	$ 2,848
Basic earnings per common share		
As reported	$ 0.15	$ 0.07
Pro forma	$ 0.12	$ 0.04
Diluted earnings per common share		
As reported	$ 0.15	$ 0.07
Pro forma	$ 0.11	$ 0.04

For all options granted prior to April 1, 2004, 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 55.2%, risk-free interest rate of 2.9%, expected lives of four years, and no dividend yield. For options granted on or after April 1, 2004, the fair value of the options was estimated at the date of grant using the binomial method pricing model with the following weighted average assumptions: expected volatility of 47.8%, a risk-free interest rate of 3.5%, no dividend yield and an expected life of four years. Had we changed from using the Black-Scholes option pricing model to a binomial method pricing model effective January 1, 2004 rather than April 1, 2004, the impact would not have been significant.

RENT-A-CENTER, INC. AND SUBSIDIARIES

Effect of New Accounting Pronouncements. In December 2004, the FASB enacted Statement of Financial Accounting Standards 123—revised 2004 ("SFAS 123R"), *Share-Based Payment,* which replaces SFAS 123, and supersedes APB 25. SFAS 123R requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statement of earnings. The accounting provisions of SFAS 123R are effective for fiscal years beginning after June 15, 2005.

We are required to adopt SFAS 123R in the first quarter of 2006. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See the *Stock-Based Compensation* section shown above for the pro forma net earnings and earnings per share amounts for the first nine months and third quarter of 2005 and 2004 as if we had used a fair-value-based method under SFAS 123 to measure compensation expense for employee stock incentive awards. The actual effects of SFAS 123R will depend on numerous factors, including the amounts of share-based payments granted in the future, the method used to value future share-based payments to our employees and estimated forfeiture rates. We estimate recognizing pre-tax compensation expense of approximately $0.04 and $0.03 per diluted share, for the years ended December 31, 2006 and 2007, respectively, based on the number of options outstanding at September 30, 2005, and assuming that we continue to issue stock options under the Plan consistent with our current policy and procedures.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, whereas current accounting rules prescribe that the benefits be reported as an operating cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Total cash flow will remain unchanged from what would have been reported under prior accounting rules.

2. *Reconciliation of Merchandise Inventory.*

	Nine months ended September 30, 2005	Nine months ended September 30, 2004
	(In thousands)	
Beginning merchandise value	$ 760,422	$ 682,367
Inventory additions through acquisitions	8,554	65,829
Purchases	486,209	453,358
Depreciation of rental merchandise	(332,965)	(331,918)
Cost of goods sold	(108,775)	(98,883)
Skips and stolens	(44,956)	(39,984)
Other inventory deletions(1)	(15,421)	(11,913)
Ending merchandise value	$ 753,068	$ 718,856

	Three months ended September 30, 2005	Three months ended September 30, 2004
	(In thousands)	
Beginning merchandise value	$ 773,903	$ 736,193
Inventory additions through acquisitions	5,722	904
Purchases	141,224	141,696
Depreciation of rental merchandise	(110,126)	(111,490)
Cost of goods sold	(32,870)	(29,158)
Skips and stolens	(16,373)	(14,802)
Other inventory deletions(1)	(8,412)	(4,487)
Ending merchandise value	$ 753,068	$ 718,856

(1) Other inventory deletions include loss/damage waiver claims and unrepairable and missing merchandise, as well as acquisition write-offs. 2005 inventory deletions also include $3.6 million in write-offs associated with Hurricanes Katrina and Rita.

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3. *Intangibles.*

Amortization of intangibles consists primarily of the amortization of customer relationships and non-compete agreements.

Intangibles consist of the following (in thousands):

		September 30, 2005		December 31, 2004	
	Avg. Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets					
Franchise network	10	$ 3,000	$ 2,775	$ 3,000	$ 2,550
Non-compete agreements	3	6,018	4,116	5,902	3,197
Customer relationships	1.5	32,753	30,391	30,644	24,810
Total		41,771	37,282	39,546	30,557
Intangible assets not subject to amortization					
Goodwill		1,023,444	99,152	1,012,577	99,162
Total intangibles		$ 1,065,215	$ 136,434	$ 1,052,123	$ 129,719

The estimated remaining 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)
2005	$ 1,406
2006	2,902
2007	176
2008	5
Total	$ 4,489

Changes in the net carrying amount of goodwill are as follows:

	At September 30, 2005	At December 31, 2004
	(In thousands)	
Balance as of January 1,	$ 913,415	$ 788,059
Additions from acquisitions	24,136	112,209
Goodwill impairment (1)	(8,198)	—
Post purchase price allocation adjustments	(5,061)	13,147
Balance as of the end of the period	$ 924,292	$ 913,415

(1) Goodwill impairment of approximately $4.5 million and $3.7 million was recorded in relation to our store closing plan and Hurricanes Katrina and Rita, respectively.

The post purchase price allocation adjustments in 2004 of approximately $13.1 million were primarily attributable to inventory charge-offs for unrentable or missing merchandise acquired in acquisitions, reserves put into place for lease buyouts for acquired stores which were closed post-acquisition in compliance with executive management's pre-acquisition plans, and the severance pay for the employees involved in the planned reduction in workforce inherited from certain of the acquired companies.

RENT-A-CENTER, INC. AND SUBSIDIARIES

4. *Earnings Per Share.*

Basic and diluted earnings per common share is computed based on the following information:

(In thousands, except per share data)	Nine months ended September 30, 2005		
	Net earnings	Shares	Per share
Basic earnings per common share	$ 100,688	74,044	$ 1.36
Effect of dilutive stock options		1,218	
Diluted earnings per common share	$ 100,688	75,262	$ 1.34

	Nine months ended September 30, 2004		
	Net earnings	Shares	Per share
Basic earnings per common share	$ 108,976	79,246	$ 1.38
Effect of dilutive stock options		2,352	
Diluted earnings per common share	$ 108,976	81,598	$ 1.34

(In thousands, except per share data)	Three months ended September 30, 2005		
	Net earnings	Shares	Per share
Basic earnings per common share	$ 11,277	72,826	$ 0.15
Effect of dilutive stock options		887	
Diluted earnings per common share	$ 11,277	73,713	$ 0.15

	Three months ended September 30, 2004		
	Net earnings	Shares	Per share
Basic earnings per common share	$ 5,573	77,989	$ 0.07
Effect of dilutive stock options		1,939	
Diluted earnings per common share	$ 5,573	79,928	$ 0.07

For the nine months ended September 30, 2005 and 2004, 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 our common stock, and therefore anti-dilutive, was 1,843,383 and 560,084, respectively.

For the three months ended September 30, 2005 and 2004, 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 our common stock, and therefore anti-dilutive, was 2,416,436 and 1,241,709, respectively.

5. *Subsidiary Guarantors.*

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 certain outstanding 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.

5. *Subsidiary Guarantors* — (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 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 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 our 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. Rent-A-Center has no independent assets or operations, and each Subsidiary Guarantor is 100% owned directly or indirectly by Rent-A-Center. 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 Subsidiary Guarantors to transfer funds to Rent-A-Center in the form of loans, advances or dividends, except as provided by applicable law.

6. *Common and Preferred Stock Transactions.*

On October 24, 2003, we announced our Board of Directors had rescinded our old common stock repurchase program and authorized a new common stock repurchase program, permitting us to purchase, from time to time, in the open market and privately negotiated transactions, up to an aggregate of $100.0 million of our common stock. Over a period of time, our Board of Directors increased the authorization for stock repurchases under our new common stock repurchase program to $400.0 million. As of September 30, 2005, we had purchased a total of 12,609,900 shares of our common stock for an aggregate of $321.6 million under our common stock repurchase program, of which 3,917,200 shares were repurchased during the third quarter of 2005 for approximately $80.0 million. Please see “Unregistered Sales of Equity Securities and Use of Proceeds” later in this report.

In May 2005, Apollo Investment Fund IV, L.P. and Apollo Overseas Partners IV, L.P. (collectively, “Apollo”) sold all of the remaining shares of our common stock held by them in a public offering which closed on May 31, 2005. We did not receive any of the proceeds from the sale of the shares by Apollo. In connection with such sale, Apollo converted the two issued and outstanding shares of our Series C preferred stock into 180 shares of common stock all of which were sold in the public offering. As a result of the conversion, no shares of our Series C preferred stock remain outstanding. In addition, as a result of the sale by Apollo of all of the shares of our common stock held by them, our stockholders agreement with Apollo terminated pursuant to its terms.

7. *Acquisitions.*

Rent Rite, Inc. On May 7, 2004, we completed the acquisition of Rent Rite, Inc. d/b/a Rent Rite Rental Purchase for an aggregate purchase price of $59.9 million. Rent Rite operated 90 stores in 11 states, of which 26 stores were merged with our existing store locations. Approximately 40% of the consideration was paid with 815,592 shares of our common stock, with the remaining portion consisting of cash, the assumption of Rent Rite’s stock options and retirement of Rent Rite’s outstanding debt. The common stock paid as well as the assumption of stock options were recorded at the fair value determined at the effective date of the purchase. The table below summarizes the allocation of the purchase price based on the fair values of the significant assets acquired:

	Fair Values (in thousands)
Rental merchandise	$ 18,644
Property assets	1,262
Customer relationships	3,180
Non-compete agreements	242
Goodwill	36,568
Total assets acquired	$ 59,896

RENT-A-CENTER, INC. AND SUBSIDIARIES

7. *Acquisitions* — (continued)

Rainbow Rentals, Inc. On May 14, 2004, we completed the acquisition of Rainbow Rentals, Inc. for an aggregate purchase price of $109.0 million. Rainbow Rentals operated 124 stores in 15 states, of which 29 stores were merged with our existing store locations. We funded the acquisition entirely with cash on hand. The table below summarizes the allocation of the purchase price based on the fair values of the significant assets acquired:

	Fair Values (in thousands)
Rental merchandise	$ 41,337
Property assets	2,864
Customer relationships	4,553
Non-compete agreements	100
Goodwill	60,192
Total assets acquired	$ 109,046

We entered into these transactions seeing them as opportunistic acquisitions that would allow us to expand our store base in conjunction with our strategic growth plans. The prices of the acquisitions were determined by evaluating the average monthly rental income of the acquired stores and applying a multiple to the total. Customer relationships acquired in these transactions are being amortized utilizing the straight-line method over an 18 month period. The non-compete agreements in these transactions are being amortized using the straight-line method over the life of the agreements and, in accordance with SFAS 142, the goodwill associated with the acquisitions are not being amortized.

All acquisitions have been accounted for as purchases, and the operating results of the acquired stores and accounts have been included in our financial statements since their date of acquisition.

8. *Guarantees.*

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 paying the outstanding debt to Wells Fargo and then succeeding to the rights of Wells Fargo under the debt agreements, including the right to foreclose on the collateral. An additional $20.0 million of financing is provided by Texas Capital Bank, National Association under an agreement similar to the Wells Fargo financing. Rent-A-Center East, Inc., a subsidiary of Rent-A-Center, 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 $70.0 million, of which $26.0 million was outstanding as of September 30, 2005. 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.

Other guarantees. We also provide assurance to our insurance providers that if they are not able to draw funds from us for claims paid, they have the ability to draw against our letters of credit. Generally, our letters of credit are renewed automatically every year unless we notify the institution not to renew. At September 30, 2005, we had $103.3 million in outstanding letters of credit under our senior credit facilities, all of which is supported by our $250.0 million revolving facility.

9. *Refinancing of Senior Debt.*

On July 14, 2004, we refinanced our then existing senior secured debt by entering into new $600.0 million senior credit facilities. Our new $600.0 million senior credit facilities consist of a $350.0 million term loan and a $250.0 million revolving credit facility. On that day, we drew down the $350.0 million term loan and $50.0 million of the revolving facility and utilized the proceeds to repay our existing senior term debt.

RENT-A-CENTER, INC. AND SUBSIDIARIES

10. *Store Consolidation Plan.*

On September 6, 2005, we announced our plan to close up to 162 stores by December 31, 2005. The decision to close these stores was based on management's analysis and evaluation of the markets in which we operate, including our market share, operating results, competitive positioning and growth potential for the affected stores. The 162 stores include 114 stores that we intend to close and merge with our existing stores and up to 48 additional stores that we intend to sell, merge with a potential acquisition or close by December 31, 2005. As of September 30, 2005, we had merged 100 of the 114 stores identified to be merged with existing locations. Since September 30, 2005, we have merged seven of the remaining 14 and sold 14 of the additional 48 stores we intend to sell, close or merge with a potential acquisition.

We expect to incur restructuring expenses in the range of $12.1 million to $25.1 million, which will be recorded in the third and fourth quarters of the fiscal year ending December 31, 2005, based on the closing date of the stores. During the third quarter of 2005, we recorded restructuring charges of $13.0 million. The charges included $6.5 million for lease terminations, $1.8 million for fixed asset disposals and approximately $4.7 for goodwill impairment and other expenses incurred in these closures. The following table presents the original range of estimated charges, the charges recorded in the third quarter and the estimated range of remaining charges to be recorded in the fourth quarter of the fiscal year ending December 31, 2005 (in thousands):

	Closing Plan Estimate	Charges to expense during the third quarter 2005	Estimated remaining charges for the fourth quarter 2005	Accrual remaining at September 30, 2005
Lease obligations	$ 8,661 - $13,047	$ 6,502	$ 2,159 - $ 6,545	$ 5,341
Fixed asset disposals	2,630 - 4,211	1,789	841 - 2,422	—
Other costs (1)	830 - 7,875	4,737	0 - 3,138	658
Total	$ 12,121 - $25,133	$ 13,028	$ 3,000 - $12,105	$ 5,999

(1) Goodwill impairment charges are the primary component of other costs. Additional costs include inventory disposals and the removal of signs and various assets from vacated locations.

We expect the total estimated cash outlay in connection with the store closing plan to be between $9.0 million to $13.7 million. The amount of cash used in the store closing plan during the third quarter was $1.2 million. Therefore, we expect to use approximately $7.8 million to $12.5 million of cash on hand for future payments primarily related to the satisfaction of lease obligations for closed stores.

11. *Effects of Hurricanes Katrina and Rita.*

During the third quarter of 2005, we recorded pre-tax expenses of approximately $7.7 million related to the damage caused by Hurricanes Katrina and Rita. These costs relate primarily to goodwill impairment of approximately $3.7 million and inventory losses of approximately $3.6 million.

RENT-A-CENTER, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 that the expectations reflected in such forward-looking statements are accurate. However, we cannot assure you that these expectations will occur. Our actual future performance could differ materially from such statements. Factors that could cause or contribute to these differences include, but are not limited to:

- uncertainties regarding additional costs and expenses that could be incurred in connection with the store consolidation plan;
- uncertainties regarding the ability to open new rent-to-own 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 identify and successfully market products and services that appeal to our customer demographic;
- our ability to identify and successfully enter new lines of business offering products and services that appeal to our customer demographic;
- 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;
- our ability to enter into new rental purchase agreements;
- economic pressures affecting the disposable income available to our targeted consumers, such as high fuel and utility costs;
- 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 important factors that could cause our actual results to differ materially from our expectations are discussed under Risk Factors in our Annual Report on Form 10-K for our fiscal year ended December 31, 2004. 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.

Our Business

We are the largest rent-to-own operator in the United States with an approximate 34% market share based on store count. At September 30, 2005, we operated 2,787 company-owned stores nationwide and in Canada and Puerto Rico, including 21 stores located in Wisconsin and operated by our subsidiary Get It Now, LLC under the name “Get It Now” and seven stores located in Canada and operated by our subsidiary Rent-A-Centre Canada, Ltd., under the name “Rent-A-Centre.” Another of our subsidiaries, ColorTyme, is a national franchisor of rent-to-own stores. At September 30, 2005, ColorTyme had 287 franchised stores in 38 states, 275 of which operated under the ColorTyme name and 12 stores of which operated under the Rent-A-Center name.

RENT-A-CENTER, INC. AND SUBSIDIARIES

Our stores generally offer high quality durable products such as major consumer 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.

Rental payments are made generally on a weekly basis and, together with applicable fees, constitute our primary revenue source. Our expenses primarily relate to merchandise costs and the operations of our stores, including salaries and benefits for our employees, occupancy expense for our leased real estate, merchandise delivery expenses, advertising expenses, lost, damaged, or stolen merchandise, fixed asset depreciation, and corporate and other expenses.

We have pursued an aggressive growth strategy since 1993. We have sought to acquire underperforming rent-to-own stores to which we could apply our operating model as well as open new stores. As a result, 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.

We plan to accomplish our future growth through selective and opportunistic acquisitions of existing rent-to-own stores, and development of new rent-to-own stores. Typically, a newly opened rent-to-own 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 $500,000, with roughly 75% 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. In addition, we strategically open or acquire stores near market areas served by existing stores ("cannibalize") to enhance service levels, gain incremental sales and increase market penetration. This planned cannibalization may negatively impact our same store revenue. There can be no assurance that we will open any new rent-to-own stores in the future, or as to the number, location or profitability thereof.

Furthermore, we are evaluating other growth strategies, including offering additional products and services designed to appeal to our customer demographic, both through our new and existing rent-to-own stores as well as the entry into additional lines of business. On June 30, 2005, we acquired 27 stores in six Western states which offer an array of financial services in addition to traditional rent-to-own products. We intend to begin offering similar financial services in up to 25 existing Rent-A-Center store locations during the fourth quarter of 2005. There can be no assurance that we will be successful in our efforts to expand our operations to include such complementary financial products or services, or that such operations, should they be added, will prove to be profitable.

Recent Developments

As of October 26, 2005, we have acquired accounts from one store, opened three new stores and closed 27 stores during the fourth quarter of 2005. Of the closed stores, 14 were sold and 7 were merged with existing locations in connection with our store consolidation plan. Five other stores were closed as a result of Hurricane Katrina and another store, unrelated to our store closing plan, was sold. It is our intention to increase the number of rent-to-own stores we operate by an average of approximately 5% per year over the next several years.

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

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. 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. We believe the following are areas where the degree of judgment and complexity in determining amounts recorded in our consolidated financial statements make the accounting policies critical.

Self-Insurance Liabilities. We have self-insured retentions with respect to losses under our workers' compensation, general liability, auto liability and employee health insurance policies. We establish reserves for our liabilities associated with these losses by obtaining forecasts for the ultimate expected losses and estimating amounts needed to pay losses within our self-insured retentions.

We make assumptions on our liabilities within our self-insured retentions using actuarial loss forecasts, which are prepared using methods and assumptions in accordance with standard actuarial practice, and third party claim administrator loss estimates which are based on known facts surrounding individual claims. Each quarter, we reevaluate our estimate of liability within our self-insured retentions, including our assumptions related to our loss forecasts and estimates, using actuarial loss forecasts updated during the quarter and currently valued third party claim administrator loss estimates. We evaluate the adequacy of our accruals by comparing amounts accrued on our balance sheet for anticipated losses to our updated actuarial loss forecasts and third party claim administrator loss estimates, and make adjustments to our accruals as needed based upon such review.

Over the previous 10 years, our loss exposure has increased, primarily as a result of our growth. We instituted procedures to manage our loss exposure through a greater focus on the risk management function, a transitional duty program for injured workers, ongoing safety and accident prevention training, and various programs designed to minimize losses and improve our loss experience in our store locations.

As of September 30, 2005, the net amount accrued for losses within our self-insured retentions was $97.8 million, as compared to $83.6 million at September 30, 2004. The increase in the net amount accrued for the 2005 period is a result of an estimate for new claims expected for the current policy period, which incorporates our store growth, increased number of employees, increases in health care costs, and the net effect of prior period claims which have closed or for which additional development or changes in estimates have occurred.

Litigation Reserves. We are the subject of litigation in the ordinary course of our business. Our litigation involves, among other things, actions relating to claims that our rental purchase agreements constitute installment sales contracts, violate state usury laws or violate other state laws 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. In preparing our financial statements at a given point in time, we account for these contingencies pursuant to the provisions of SFAS No. 5, which requires that we accrue for losses that are both probable and reasonably estimable.

Each quarter, we make estimates of our probable liabilities, if reasonably estimable, and record such amounts in our consolidated financial statements. These amounts 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 reflect current facts and circumstances. As of September 30, 2005, we had accrued $1.9 million in connection with the prospective settlement of the *Pucci/Chess* matter, and an additional $400,000 for anticipated legal fees and expenses with respect to our other outstanding litigation (other than the *Pucci/Chess* matter) as compared to $49.6 million for the quarter ended September 30, 2004, of which we had accrued $47.0 million in connection with the settlement of the *Griego/Carrillo* matter, and an additional $2.6 million for probable litigation costs with respect to our outstanding litigation (other than the *Griego/Carrillo* matter). The amounts accrued, relating to the prospective settlement in the *Pucci/Chess* matter, and for anticipated legal fees and expenses with respect to our remaining outstanding litigation (other than the *Pucci/Chess* matter), represent our estimate of the probable liabilities with respect to such litigation. The ultimate outcome of our litigation is uncertain, and the amount of loss we may incur, if any, cannot in our judgment be reasonably estimated. Additional developments in our litigation or other adverse or positive developments or rulings in our litigation, could affect our assumptions and thus, our accrual.

If we make changes to our accruals in any of these areas in accordance with the policies described above, these changes would impact our earnings. Increases to our accruals would reduce earnings and similarly, reductions to our accruals would increase our earnings. A pre-tax change of $1.1 million in our estimates would result in a corresponding $.01 change in our earnings per share.

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 provide a meaningful and fair perspective of our company. However, we do not suggest that other general risk factors, such as those discussed in our Annual Report on Form 10-K 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.

RENT-A-CENTER, INC. AND SUBSIDIARIES

Significant Accounting Policies

Our significant accounting policies are summarized below and in Note A to our consolidated financial statements included in our Annual Report on Form 10-K.

Revenue. Merchandise is rented to customers pursuant to rental-purchase agreements which provide for weekly, semi-monthly 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 as payments are received and merchandise sales revenue is recognized when the customer exercises his/her purchase option and pays the cash price due. Revenue for the total amount of the rental purchase agreement is not accrued because the customer can cancel the rental contract at any time and we cannot enforce collection for non-payment of rents. Because Get It Now makes retail sales on an installment credit basis, Get It Now's revenue is recognized at the time of such retail sale, as is the cost of the merchandise sold, net of a provision for uncollectible 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. Depreciation of rental merchandise is included in the cost of rentals and fees on our statement of earnings. 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. We accelerate the depreciation on computers that are 24 months old or older and which have become idle using the straight-line method for a period of at least six months, generally not to exceed an aggregate depreciation period of 30 months. The purpose is to better reflect the depreciable life of a computer in our stores.

Cost of Merchandise Sold. Cost of merchandise sold represents the book value net of accumulated depreciation of rental merchandise at time of sale.

Salaries and Other Expenses. Salaries and other expenses include all salaries and wages paid to store level employees, together with market managers' salaries, travel and occupancy, including any related benefits and taxes, as well as all store level general and administrative expenses and selling, advertising, insurance, occupancy, delivery, fixed asset depreciation and other operating expenses.

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.

Results of Operations

During the third quarter of 2005, we recorded pre-tax expenses of approximately $7.7 million related to the damage caused by Hurricanes Katrina and Rita. These costs relate primarily to goodwill impairment of approximately $3.7 million and inventory losses of approximately $3.6 million.

Nine Months Ended September 30, 2005 compared to Nine Months Ended September 30, 2004

Store Revenue. Total store revenue increased by $33.1 million, or 2.0%, to $1,725.8 million for the nine months ended September 30, 2005 as compared to $1,692.7 million for the nine months ended September 30, 2004. The increase in total store revenue is primarily attributable to approximately $70.5 million in incremental revenue from new stores and acquisitions, net of stores sold and the effects of merged stores, during the first nine months of 2005 as compared to 2004, offset by a decrease in same store sales of 2.8%.

Same store revenues represent those revenues earned in stores that were operated by us for each of the entire nine month periods ending September 30, 2005 and 2004, excluding store locations that received accounts through an acquisition or merger of an existing store location. Same store revenues decreased by $37.4 million, or 2.8%, to $1,303.2 million for the nine months ended September 30, 2005 as compared to $1,340.6 million in 2004. This decrease in same store revenues was primarily attributable to a decrease in the average number of customers and agreements on rent on a per store basis during the first nine months of 2005 as compared to the first nine months of 2004.

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Franchise Revenue. Total franchise revenue decreased by $5.2 million, or 14.6%, to $30.1 million for the nine months ended September 30, 2005 as compared to $35.3 million in 2004. This decrease was primarily attributable to a decrease in merchandise sales to franchise locations as a result of 21 fewer franchised locations, on a weighted average basis, operating in the first nine months of 2005 as compared to the first nine months of 2004. The number of locations has declined as a result of the purchase of 53 franchise locations by other Rent-A-Center subsidiaries since September 30, 2004.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise and the costs associated with our membership programs, which began in 2004. Cost of rentals and fees for the nine months ended September 30, 2005 increased by $4.8 million, or 1.5%, to $338.7 million for the nine months ended September 30, 2005 as compared to $333.9 million in 2004. This increase is a result of an increase in rental revenue for the first nine months of 2005 compared to the first nine months of 2004. Cost of rentals and fees expressed as a percentage of store rentals and fees revenue was 21.7% for the nine months ending September 30, 2005 and 2004.

Cost of Merchandise Sold. Cost of merchandise sold increased by $9.5 million, or 10.5%, to $100.6 million for the nine months ended September 30, 2005 as compared to $91.1 million in 2004. This increase was primarily a result of an increase in the number of items sold during the first nine months of 2005 as compared to the first nine months of 2004. The gross margin percent of merchandise sales decreased to 27.9% in 2005 from 30.1% in 2004. This decrease is attributable to a decrease in the average selling price of merchandise sold during the first nine months of 2005 as compared to 2004.

Salaries and Other Expenses. Salaries and other expenses increased by $70.8 million, or 7.5%, to $1,017.4 million for the nine months ended September 30, 2005 as compared to $946.6 million in 2004. The increase was primarily the result of an increase in salaries and wages and occupancy costs due to an increased number of stores in the 2005 period, higher fuel expenses relating to product deliveries and utility costs, as well as the impact of Hurricanes Katrina and Rita. For the nine months ended September 30, 2005, there were 102 more stores, on a weighted average basis, operating during the period as compared to 2004. Salaries and other expenses expressed as a percentage of total store revenue increased to 59.0% for the nine months ended September 30, 2005 from 55.9% in 2004. This percentage increase was primarily attributable to the decrease in same store sales during the first nine months of 2005 as compared to 2004.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold decreased by $4.7 million, or 15.8%, to $25.0 million for the nine months ended September 30, 2005 as compared to $29.7 million in 2004. This decrease was primarily attributable to a decrease in merchandise sales to franchise locations as a result of 21 fewer franchised locations, on a weighted average basis, operating in the first nine months of 2005 as compared to the first nine months of 2004. The number of locations has declined as a result of the purchase of 53 franchise locations by other Rent-A-Center subsidiaries since September 30, 2004.

General and Administrative Expenses. General and administrative expenses increased by $4.3 million, or 7.7%, to $60.7 million for the nine months ended September 30, 2005, as compared to $56.4 million for the first nine months of 2004. General and administrative expenses expressed as a percentage of total revenue increased slightly to 3.5% for the nine months ending September 30, 2005 as compared to 3.3% for the nine months ending September 30, 2004.

Operating Profit. Operating profit decreased by $17.2 million, or 8.3%, to $190.0 million for the nine months ended September 30, 2005 as compared to $207.2 million in 2004. Excluding the pre-tax litigation reversion credit of $8.0 million recorded in the first quarter of 2005, the pre-tax restructuring charge of $13.0 million recorded in the third quarter of 2005 and the pre-tax litigation charge of $47.0 million recorded in the third quarter of 2004, operating profit decreased by $59.2 million, or 23.3%, to $195.0 million for the nine months ended September 30, 2005 as compared to $254.2 million in 2004. Operating profit as a percentage of total revenue decreased to 11.1% for the nine months ended September 30, 2005 before the pre-tax litigation reversion credit and restructuring charge in 2005, from 14.7% in the first nine months of 2004 before the pre-tax litigation charge in 2004. These decreases were primarily attributable to the decrease in same store sales and the increase in salaries and other expenses during the first nine months of 2005 versus 2004 as discussed above.

Net Earnings. Net earnings decreased by $8.3 million, or 7.6%, to $100.7 million for the nine months ended September 30, 2005 as compared to $109.0 million in 2004. Excluding the pre-tax litigation reversion credit of $8.0 million recorded in the first quarter of 2005, a pre-tax restructuring charge of $13.0 million recorded in the third quarter, a $2.0 million tax audit reserve credit recorded in the second quarter of 2005, and a $47.0 million litigation charge and $4.2 million refinance charge recorded in the third quarter of 2004, net earnings decreased by $39.1 million, or 27.7%, to $101.9 million for the nine months ended September 30, 2005 as compared to $141.0 million in 2004. This decrease was primarily attributable to the decrease in same store sales and the increase in salaries and other expenses during the first nine months of 2005 versus 2004 as discussed above.

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Three Months Ended September 30, 2005 compared to Three Months Ended September 30, 2004

Store Revenue. Total store revenue increased by $5.7 million, or 1.0%, to $564.9 million for the three months ended September 30, 2005 as compared to $559.2 million for the three months ended September 30, 2004. The increase in total store revenue is primarily attributable to approximately $7.7 million in incremental revenue from new stores and acquisitions, net of stores sold and the effects of merged stores, during the third quarter of 2005 as compared to 2004, offset by a decrease in same store sales of 0.4%.

Same store revenues represent those revenues earned in stores that were operated by us for each of the entire three month periods ending September 30, 2005 and 2004, excluding store locations that received accounts through an acquisition or merger of an existing store location. Same store revenues decreased by $2.0 million, or 0.4%, to $465.4 million for the three months ended September 30, 2005 as compared to $467.4 million in 2004. This decrease in same store revenues was primarily attributable to a decrease in the average number of customers and agreements on rent on a per store basis during the third quarter of 2005 as compared to the third quarter of 2004.

Franchise Revenue. Total franchise revenue decreased by $1.8 million, or 17.6%, to $8.6 million for the three months ended September 30, 2005 as compared to $10.4 million in 2004. This decrease was primarily attributable to a decrease in merchandise sales to franchise locations as a result of 28 fewer franchised locations, on a weighted average basis, operating in the third quarter of 2005 as compared to the third quarter of 2004. The number of locations has declined as a result of the purchase of 53 franchise locations by other Rent-A-Center subsidiaries since September 30, 2004.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise and the costs associated with our membership programs, which began in 2004. Cost of rentals and fees for the three months ended September 30, 2005, decreased by approximately $400,000, or 0.4%, to $112.2 million for the three months ended September 30, 2005 as compared to $112.6 million in 2004. Cost of rentals and fees expressed as a percentage of store rentals and fees revenue decreased slightly to 21.7% for the quarter ending September 30, 2005 as compared to 21.8% for the same period in 2004.

Cost of Merchandise Sold. Cost of merchandise sold increased by $3.3 million, or 12.4%, to $30.3 million for the three months ended September 30, 2005 as compared to $27.0 million in 2004. This increase was primarily a result of an increase in the number of items sold during the third quarter of 2005 as compared to the third quarter 2004. The gross margin percent of merchandise sales decreased to 22.7% in 2005 from 25.6% in 2004. This decrease was primarily attributable to a decrease in the average selling price of merchandise sold during the third quarter of 2005 as compared to the third quarter of 2004.

Salaries and Other Expenses. Salaries and other expenses increased by $24.0 million, or 7.3%, to $350.4 million for the three months ended September 30, 2005 as compared to $326.4 million in 2004. Salaries and other expenses expressed as a percentage of total store revenue increased to 62.0% for the three months ended September 30, 2005 from 58.4% in 2004. The increases are primarily the result of an increase in salaries and wages and occupancy costs due to an increased number of stores in the 2005 period, higher fuel expenses relating to product deliveries and utility costs, as well as the impact of Hurricanes Katrina and Rita. For the three months ended September 30, 2005, there were 19 more stores, on a weighted average basis, operating during the period as compared to 2004.

Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold decreased by $1.6 million, or 18.9%, to $7.0 million for the three months ended September 30, 2005 as compared to $8.6 million in 2004. This decrease was primarily attributable to a decrease in merchandise sales to franchise locations as a result of 28 fewer franchised locations, on a weighted average basis, operating in the third quarter of 2005 as compared to the third quarter of 2004. The number of locations has declined as a result of the purchase of 53 franchise locations by other Rent-A-Center subsidiaries since September 30, 2004.

General and Administrative Expenses. General and administrative expenses increased by $2.4 million, or 12.8%, to $21.2 million for the three months ended September 30, 2005, as compared to $18.8 million in 2004. General and administrative expenses expressed as a percentage of total revenue increased to 3.7% for the three months ending September 30, 2005 as compared to 3.3% for the three months ending September 30, 2004.

Operating Profit. Operating profit increased by $6.7 million, or 27.3%, to $31.0 million for the three months ended September 30, 2005 as compared to $24.3 million in 2004. Excluding the pre-tax restructuring charge of $13.0 million recorded in the third quarter of 2005 and the pre-tax litigation charge of $47.0 million recorded in the third quarter of 2004, operating profit decreased by $27.3 million, or 38.3%, to $44.0 million for the three months ended September 30, 2005 as compared to $71.3 million in 2004. Operating profit as a percentage of total revenue decreased to 7.7% for the three months ended September 30, 2005 before the pre-tax restructuring charge in 2005, from 12.5% for the three months ended September 30, 2004 before the pre-tax litigation charge in 2004. These decreases were primarily attributable to the decrease in same store sales and the increase in salaries and other expenses during the third quarter of 2005 versus 2004 as discussed above.

Net Earnings. Net earnings increased by $5.7 million, or 102.4%, to $11.3 million for the three months ended September 30, 2005 as compared to $5.6 million in 2004. Excluding the a pre-tax restructuring charge of $13.0 million recorded in the third quarter, a pre-tax litigation charge of $47.0 million and a pre-tax refinance charge of $4.2 million, both recorded in the third quarter of 2004, net earnings decreased by $16.6 million, or 44.2%, to $20.9 million for the three months ended September 30, 2005 as compared to $37.5 million in 2004. This decrease was primarily attributable to the decrease in same store sales and the increase in salaries and other expenses during the third quarter of 2005 versus 2004 as discussed above.

Liquidity and Capital Resources

Cash provided by operating activities decreased by $140.4 million to $143.7 million for the nine months ending September 30, 2005 as compared to $284.1 million in 2004. This decrease is primarily attributable to a decrease in our deferred income taxes related to the reversal of the cash benefit related to the Jobs and Growth Tax Relief Reconciliation Act of 2003 discussed later in this report, an increase in inventory purchases related to our increased store base and a decrease in the change in our accrued liabilities during the first nine months of 2005 as compared to the first nine months of 2004. The decrease in our accrued liabilities was primarily due to the recording of the $47.0 million *Griego* settlement in 2004 (which was paid in 2005), and an increase of approximately $14.6 million in income tax liabilities paid in 2005 as compared to 2004.

Cash used in investing activities decreased by $135.0 million to $73.1 million during the nine month period ending September 30, 2005 as compared to $208.1 million in 2004. This decrease is primarily attributable to the larger acquisitions that occurred in the first nine months of 2004, such as the acquisitions of Rainbow Rentals, Inc. and Rent Rite, Inc., as compared to the acquisitions that occurred in the first nine months of 2005.

Cash used in financing activities decreased by $78.8 million to $76.6 million during the nine month period ending September 30, 2005 as compared to $155.4 million in 2004. This decrease is primarily a result of a reduction in our stock repurchases during the first nine months of 2005 as compared to the same period in 2004.

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 into 2006. Our revolving credit facilities, as well as our $10.0 million line of credit at Intrust Bank, provide us with revolving loans in an aggregate principal amount not exceeding $260.0 million, of which $111.4 million was available at October 26, 2005. At October 26, 2005, we had approximately $46.5 million in cash. To the extent we have available cash that is not necessary for store openings or acquisitions, we intend to repurchase additional shares of our common stock as well as make additional payments to service our existing debt. 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.

Our senior credit facilities and the indenture governing our $7^1/_2$% notes contain certain change in control provisions. A change in control would result in an event of default under our senior credit facilities, and, pursuant to the underlying indenture, would also require us to offer to repurchase all of our $7^1/_2$% notes at 101% of their principal amount, plus accrued interest, if any, to the date of repurchase. Provisions of our senior credit facilities restrict the repurchase of all of our $7^1/_2$% notes. In the event a change in control occurs, we cannot be sure that we would have enough funds to immediately pay our accelerated senior credit facility obligations and all of the $7^1/_2$% notes, or that we would be able to obtain financing to do so on favorable terms, if at all.

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Litigation. On June 23, 2005, we reached an agreement in principle with the plaintiffs to resolved the *Rob Pucci, et. al. v. Rent-A-Center, Inc.* and *Jeremy Chess et. al v. Rent-A-Center, Inc., et. al.* matters pending in state court in Multnomah County, Oregon. These matters allege violations of various provisions of Oregon state law regarding overtime, lunch and work breaks, failure to pay wages due to our Oregon employees, and various contract claims that we promised but failed to pay overtime. Under the terms of the settlement, which has now been documented and preliminarily approved by the court, we anticipate we will pay $1.75 million in cash to settle total class claims, provided that the class does not exceed 650 individuals. If the class exceeds 650 individuals, we agreed to pay an additional $750.00 per individual class member over 650. To account for the settlement, as well as our own attorneys' fees, we have accrued an aggregate of $1.9 million as of September 30, 2005. We expect to pay the entire settlement amount in the first quarter of 2006, following final approval of the settlement by the court.

While we believe that the terms of this settlement are fair, there can be no assurance that the settlement, if completed, will be approved by the court in its present form. We believe that the cash flow generated from operations will be sufficient to fund the prospective settlement without adversely affecting our liquidity.

Additional settlements or judgments against us on our existing litigation could affect our liquidity. Please refer to "Legal Proceedings" later in this report.

Income 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 was placed in service from 30% to 50%. Accordingly, our cash flow during 2002 through 2004 benefited from having a lower current cash tax obligation, which in turn provided additional cash flows from operations. We estimate that our operating cash flow increased by approximately $106.3 million through 2004 from the accelerated tax depreciation deductions. The associated deferred tax liabilities now have begun to reverse, doing so over a three year period beginning in 2005. Approximately 75% will reverse in 2005, 20% will reverse in 2006 and the remainder will reverse in 2007. We expect to pay approximately $28.5 million in taxes during the remainder of 2005. We also expect to pay approximately $21.3 million and $5.3 million in additional cash taxes in 2006 and 2007, respectively, due to the reversal of the deferred tax liabilities discussed above.

Rental Merchandise Purchases. We purchased $486.2 million and $453.4 million of rental merchandise during the nine month periods ending September 30, 2005 and 2004, 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 $41.0 million and $53.4 million on capital expenditures during the nine month periods ending September 30, 2005 and 2004, respectively, and expect to spend approximately $19.0 million for the remainder of 2005.

In December 2005, we expect to close the acquisition of approximately 15 acres of land located in Plano Texas, on which we intend to build a new corporate headquarters facility. The purchase price for the land is expected to be approximately $4.5 million. Building costs are expected to be in the range of $20.0-$25.0 million, with construction beginning in December 2005. Building costs will be paid on a percentage of completion basis throughout the construction period, and the building is expected to be completed by the end of 2006. We intend to finance this project from cash flow generated from operations.

Acquisitions and New Store Openings. During the first nine months of 2005, we acquired 39 stores, accounts from 35 additional locations, opened 39 new stores, and closed 166 stores. Of the closed stores, 152 were merged with existing store locations, eight stores were closed due to Hurricane Katrina and six stores were sold. The acquired stores and accounts were the result of 33 separate transactions for an aggregate price of approximately $35.6 million, of which $3.4 million will be paid at the conclusion of an escrow period.

As of October 26, 2005, we have acquired accounts from one store, opened three new stores and closed 27 stores during the fourth quarter of 2005. Of the closed stores, 14 were sold and 7 were merged with existing locations in connection with our store consolidation plan. Five other stores were closed as a result of Hurricane Katrina and another store, unrelated to our store closing plan, was sold. For the entire year ending December 31, 2005, we intend to add to our store base by opening approximately 60-70 new store locations as well as pursuing opportunistic acquisitions.

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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 under-performing stores on favorable terms. There can be no assurance that we will be able to acquire or open new stores at the rates we expect, or at all. Additionally, we cannot assure that the stores we do acquire or open will be profitable at the same levels that our current stores are, or at all.

Senior Credit Facilities. On July 14, 2004, we announced the completion of the refinancing of our senior secured debt. Our new $600.0 million senior credit facilities consist of a $350.0 million term loan and a $250.0 million revolving credit facility. On that day, we drew down the $350.0 million term loan and $50.0 million of the revolving facility and utilized the proceeds to repay our old senior term debt. The full amount of the revolving credit facility may be used for the issuance of letters of credit, of which $103.6 million had been utilized as of October 26, 2005. As of October 26, 2005, $101.4 million was available under our revolving facility. The revolving credit facility expires in July 2009 and the term loan expires in 2010.

The table below shows the scheduled maturity dates of our senior debt outstanding at September 30, 2005.

YEAR ENDING DECEMBER 31,	(IN THOUSANDS)
2005	$ 875
2006	3,500
2007	3,500
2008	3,500
2009	168,000
Thereafter	166,250
	$ 345,625

Borrowings under our senior credit facilities bear interest at varying rates equal to the Eurodollar rate plus 1.75% (the “Eurodollar Rate”), or the prime rate plus .75% (the “Prime Rate”). Currently, all borrowings under the senior credit facility bear interest at the Eurodollar Rate. The Eurodollar rate was 4.07% at October 26, 2005. We have not entered into any interest rate protection agreements with respect to the 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, without limitation, covenants that generally limit our ability to:

- incur additional debt (including subordinated debt) in excess of $50 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. The table below shows the required and actual ratios under our credit facilities calculated as at September 30, 2005:

	Required ratio		Actual ratio
Maximum consolidated leverage ratio	No greater than	2.75:1	2.12:1
Minimum consolidated interest coverage ratio	No less than	4.00:1	7.38:1
Minimum fixed charge coverage ratio	No less than	1.50:1	2.02:1

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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. An event of default would also occur if one or more judgments were entered against us of $20.0 million or more and such judgments were not satisfied or bonded pending appeal within 30 days after entry.

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%, 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 certain outstanding 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, as well as in the event a judgment is entered against us in excess of $50.0 million that is not discharged, bonded or insured.

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 new senior credit facilities. We are not required to maintain any financial ratios under the 2003 indenture.

Store Leases. We lease space for all of our stores and service center locations, as well as our corporate and regional offices under operating leases expiring at various times through 2016. Most of our store leases are five year leases and contain renewal options for additional periods ranging from three to five years at rental rates adjusted according to agreed-upon formulas.

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 paying the outstanding debt to Wells Fargo and then succeeding to the rights of Wells Fargo under the debt agreements, including the right to foreclose on the collateral. An additional $20.0 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 $70.0 million, of which $26.0 million was outstanding as of September 30, 2005. 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.

Repurchases of Outstanding Securities. On October 24, 2003, we announced that our Board of Directors had rescinded our old common stock repurchase program and authorized a new common stock repurchase program, permitting us to purchase, from time to time, in the open market and privately negotiated transactions, up to an aggregate of $100.0 million of our common stock. Over a period of time, our Board of Directors increased the authorization for stock repurchases under our new common stock repurchase program to $400.0 million. As of September 30, 2005, we had purchased a total of 12,609,900 shares of our common stock for an aggregate of $321.6 million under this common stock repurchase program, of which 3,917,200 shares were repurchased in the third quarter of 2005 for approximately $80.0 million. Please see "Unregistered Sales of Equity Securities and Use of Proceeds" later in this report.

Store Consolidation Plan. We expect the total estimated cash outlay in connection with the store consolidation plan to be between $9.0 million to $13.7 million. The amount of cash used in the store closing plan during the third quarter was $1.2 million. Therefore, we expect to use approximately $7.8 million to $12.5 million of cash on hand for future payments primarily related to the satisfaction of lease obligations for closed stores. Please see "Store Consolidation Plan" in the Notes to Consolidated Financial Statements for more information on our store consolidation plan.

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. Fluctuations in our targeted customers' monthly disposable income, such as those we believe may have been caused by nationwide increases in fuel and energy costs, could adversely impact our results of operations.

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 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 or slightly below 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 2004, the Financial Accounting Standards Board ("FASB") enacted SFAS 123R, which replaces SFAS 123, and supersedes APB 25. SFAS 123R requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statement of earnings. The accounting provisions of SFAS 123R are effective for fiscal years beginning after June 15, 2005.

We are required to adopt SFAS 123R in the first quarter of 2006. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. See the *Stock-Based Compensation* section shown above for the pro forma net earnings and earnings per share amounts for the first nine months and third quarter of 2005 and 2004 as if we had used a fair-value-based method under SFAS 123 to measure compensation expense for employee stock incentive awards. The actual effects of SFAS 123R will depend on numerous factors, including the amounts of share-based payments granted in the future, the method used to value future share-based payments to our employees and estimated forfeiture rates. We estimate recognizing additional pre-tax compensation expense of approximately $0.04 and $0.03 per diluted share, for the years ended December 31, 2006 and 2007, respectively, based on the number of options outstanding at September 30, 2005, and assuming that we continue to issue stock options under the Plan consistent with our current policy and procedures.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, whereas current accounting rules prescribe that the benefits be reported as an operating cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Total cash flow will remain unchanged from what would have been reported under prior accounting rules.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Sensitivity

As of September 30, 2005, we had $300.0 million in subordinated notes outstanding at a fixed interest rate of 7 1/2% and $345.6 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 September 30, 2005 was $287.3 million. Unlike the subordinated notes, the $345.6 million in term loans have variable interest rates indexed to current Eurodollar rates. As of September 30, 2005, 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 our 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 the Eurodollar rate that exposes us to the risk of increased interest costs if interest rates rise.

Item 4. Controls and Procedures

Evaluation of disclosure 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 defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. 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.

Changes in internal controls. For the quarter ended September 30, 2005, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — Other Information

Item 1. 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. The ultimate outcome of our litigation is uncertain and the amount of any loss we may incur, if any, cannot in our judgment be reasonably estimated. Accordingly, other than with respect to the prospective settlement of the *Pucci/Chess* matter discussed below and anticipated legal fees and expenses for these matters, no provision has been made in our consolidated financial statements for any such loss.

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 seeks 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.

From June 2003 until May 2005, there was no activity in this case. On May 18, 2005, we filed a motion to dismiss the plaintiff's claim and to decertify the class, based upon the plaintiff's failure to schedule her claim in this matter in her earlier voluntary bankruptcy proceeding. The plaintiff filed a response, and our motion is currently pending. If the court denies our motion, and enters a final certification order, we intend to pursue an interlocutory appeal of such 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.

On July 7, 2004, the plaintiffs again repled their claims by filing a third amended consolidated complaint, raising allegations of similar violations against the same parties generally based upon alleged facts not previously asserted. We, along with certain officer and director defendants and the underwriter defendants, filed motions to dismiss the third amended consolidated complaint on August 23, 2004. A hearing on the motions was held on April 14, 2005. On July 25, 2005, the court ruled on these motions, dismissing with prejudice the claims against our outside directors as well as the underwriter defendants, but denying our motion to dismiss. In evaluating this motion to dismiss, the court was required to view the pleadings in the light most favorable to the plaintiffs and to take the plaintiffs' allegations as true. On August 18, 2005, we filed a motion to certify the dismissal order for an interlocutory appeal, which is currently pending.

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

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 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 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 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 modify the formula by which late fees are calculated.

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 $600 per agreement on average.

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 included our customers in Texas from August 29, 1999 through March 5, 2004 who were charged and paid a late fee in excess of the amount permitted by Texas law. We appealed the certification order to the Court of Appeals, which we were entitled to do as a matter of right under applicable Texas law. On October 28, 2004, the Court of Appeals reversed the trial court's certification order and remanded the case back to the trial court. Duron did not perfect an appeal to the Texas Supreme Court, as she was entitled to do, and she has not taken any further action in the case since the decision by the Court of Appeals in October 2004.

We believe the claims in Duron's complaint are unfounded and that we have meritorious defenses to the allegations made. 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.

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California Attorney General Inquiry. During the second quarter of 2004, we received an inquiry from the California Attorney General regarding our business practices in California with respect to our cash prices and our membership program. We met with representatives of the Attorney General's office during the first quarter of 2005 and provided additional information with respect to our membership program as requested. We are continuing to discuss these issues with the Attorney General's office.

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 September 30, 2005, we operated 29 stores in Oregon, 149 stores in California and 46 stores in Washington.

Rob Pucci, et. al. v. Rent-A-Center, Inc; Jeremy Chess et. al. v. Rent-A-Center, Inc. et. al.; Clemmons et. al. v. Rent-A-Center, Inc., et. al.. On August 20, 2001, the putative class action *Rob Pucci, et. al. v. Rent-A-Center, Inc.* was filed 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 subsequently 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. On June 15, 2004, notice to the class was distributed advising them of their right to opt out of the class. We have not been advised that any class member has opted out of the class.

On January 31, 2005, the plaintiffs filed a partial motion for summary judgment regarding their allegation that we failed to timely pay wages on termination. On February 25, 2005, the court denied our motion to compel arbitration with respect to class members that signed agreements to arbitrate claims against us. In addition, the court rejected our proposal to enter an order permitting interlocutory appeal.

On March 17, 2005, *Pucci* class members Jeremy Chess and Chad Clemmons filed an amended class action complaint entitled *Jeremy Chess et al. v. Rent-A-Center, Inc. et al*, alleging similar claims as the plaintiffs in *Pucci* and seeking unspecified statutory and contractual damages and penalties, as well as injunctive relief. The *Chess* plaintiffs seek 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. On April 15, 2005, we filed pleadings removing the case to the federal court for the District of Oregon under the newly enacted Class Action Fairness Act of 2005. The *Chess* plaintiffs are represented by the same attorneys as the *Pucci* plaintiffs.

On June 23, 2005, we reached an agreement in principle to settle the claims in *Pucci* and *Chess*. Under the terms of the prospective settlement, we agreed to pay $1.75 million to settle total class claims, provided that the class does not exceed 650 individuals. If the class exceeds 650 individuals, we agreed to pay an additional $750.00 per individual class member over 650. On October 6, 2005, plaintiffs' counsel in the *Pucci* and *Chess* matters filed a new class action complaint in Federal court entitled *Clemmons et al v. Rent-A-Center Inc., et al*, alleging substantially similar claims and seeking similar damages as in *Pucci* and *Chess* through the date of filing. The parties propose to use the *Clemmons* case to consolidate the *Pucci* and

Chess claims, and facilitate final approval, administration and distribution of the proposed settlement. The settlement has been documented and preliminarily approved by the *Pucci/Chess* and *Clemmons* courts.

The terms of the settlement are subject to obtaining final approval from the *Pucci/Chess* and *Clemmons* courts. Notice of the settlement is expected to be mailed to class members on or about November 15, 2005. Objections to the settlement are due on December 15, 2005, and the final approval hearing is scheduled for January 20, 2006. We expect to fund the entire settlement amount within 14 days following final approval by the *Clemmons* court. While we believe that the terms of this prospective settlement are fair, there can be no assurance that the settlement, if completed, will be approved by the court in its present form. To account for the prospective settlement, as well as our own attorneys' fees, we have accrued an aggregate of $1.9 million as of September 30, 2005.

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*. In June 2004, the *Burdusis* plaintiffs filed their appellate brief. Our response brief was filed in September 2004, and the *Burdusis* plaintiffs filed their reply in October 2004. On February 9, 2005, the California Court of Appeals reversed and remanded the trial court's denial of class certification in *Burdusis* and directed the trial court to reconsider its ruling in light of two other recent appellate court decisions, including the opinions of the California Supreme Court in *Sav-On Drugs Stores, Inc. v. Superior Court*, and of the California appeals court in *Bell v. Farmers Insurance Exchange*. After remand, the plaintiffs filed a motion with the trial court seeking to remove from the case the trial court judge who previously denied their motion for class certification. The trial court denied the motion. In response, plaintiffs' filed a petition for writ of mandate with the California Court of Appeals requesting review of the trial court's decision. The California Court of Appeals heard oral arguments in this matter on August 29, 2005, and ruled against the plaintiffs, denying the requested relief. The case is now being returned to the trial court as previously ordered.

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 400. The claims in the amended complaint are substantially the same as those in *Burdusis*. We filed a demurrer with respect to the amended complaint on April 12, 2004, which the court granted on May 6, 2004. However, the court allowed the plaintiffs to again replead the action on a representative basis, which they did on May 26, 2004. We subsequently filed a demurrer with respect to the newly repled action, which the court granted on August 12, 2004. The court subsequently stayed the *Corso* matter pending the outcome of the *Burdusis* matter. On March 16, 2005, the court lifted the stay and on April 12, 2005, we answered the amended complaint. Discovery is now proceeding.

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. 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, which was denied by the Court of Appeals 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*. In April 2005, the plaintiffs' counsel filed another putative county-wide lawsuit, bringing the total to 15. The purported classes in these county-wide class actions range from approximately 20 individuals to approximately 100 individuals. Subsequently, we filed motions to dismiss and/or stay the class allegations in each of the county-wide actions, and we also filed motions for summary judgment in various counties with respect to the individual claims of some of the plaintiffs. Following disposition of these motions by the applicable courts, approximately 13 individual plaintiffs and class representatives remain with respect to the claims made in 12 counties. Ten of these county-wide claims are now proceeding as putative county-wide class actions and two are proceeding on an individual plaintiff basis. Certain plaintiffs have appealed some of the orders granting summary judgment. The plaintiffs in eight of the 12 counties have filed motions to certify a county-wide class. We intend to vigorously oppose class certification.

We also filed motions to compel arbitration with respect to 20 individual purported plaintiffs and class representatives in 10 counties, all of which were subsequently granted. Certain plaintiffs have appealed one of these orders compelling arbitration. The 20 arbitration plaintiffs filed separate putative nationwide class arbitration demands. In response, we filed motions to clarify the respective county courts' orders compelling arbitration. Specifically, we asked each county court that previously struck all class allegations to make clear that the arbitration plaintiffs in those counties could not pursue any class claims, and we asked each county court in those counties that allowed plaintiffs to plead putative county-wide class claims, to make clear that such plaintiffs could only pursue county-wide claims. Three courts that granted our motions to compel arbitration and had previously struck all class allegations granted our motions and ruled that the plaintiffs could not pursue any class arbitration claims. Five courts ruled that the arbitration plaintiffs could only pursue county-wide class arbitration claims, and two of the county courts refused to limit the arbitration plaintiffs' ability to pursue class arbitration demands. We intend to vigorously oppose these class arbitration demands, including vigorously challenging the ability of the plaintiffs to pursue in arbitration, on a putative nation-wide class basis, claims which were previously premised on purported violations of Washington state law.

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 and we intend to vigorously oppose each of these cases. We cannot assure you, however, that we will be found to have no liability in these matters.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

As of September 30, 2005, we are authorized to repurchase up to $400.0 million in aggregate purchase price of our common stock under our common stock repurchase program. As of September 30, 2005, we had repurchased $321.6 million in aggregate purchase price of our common stock under our stock repurchase program. In the third quarter of 2005, we effected the following repurchases of our common stock:

Period	Total Number of Shares Purchased	Average Price Paid per Share (including fees)	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 (including fees)
July 1 through July 31	0	$ 0.0000	0	$158,391,967
August 1 through August 31	3,448,800	$20.4780	3,448,800	$ 87,767,570
September 1 through September 30	468,400	$20.0879	468,400	$ 78,358,403
Total	3,917,200	$20.4313	3,917,200	$ 78,358,403

Item 6. Exhibits

The exhibits required to be furnished pursuant to Item 6 are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

RENT-A-CENTER, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Report to be signed on its behalf by the undersigned duly authorized officer.

RENT-A-CENTER, INC.

By: /s/ Robert D. Davis
Robert D. Davis
Senior Vice President-Finance,
Chief Financial Officer and Treasurer

Date: October 28, 2005

RENT-A-CENTER, INC. AND SUBSIDIARIES

INDEX TO EXHIBITS

Exhibit No.	Description
2.1	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.) (Incorporated herein by reference to Exhibit 2.7 to the registrant's Annual Report on Form 10-K/A for the year ended December 31, 2003.)
2.2	Agreement and Plan of Merger, dated as of April 27, 2004, by and between Rent-A-Center, Inc., RAC RR, Inc. and Rent Rite, Inc. d/b/a Rent Rite Rental Purchase (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.) (Incorporated herein by reference to Exhibit 2.8 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.)
3.1	Certificate of Incorporation of Rent-A-Center, Inc., as amended (Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002.)
3.2	Certificate of Amendment to the Certificate of Incorporation of Rent-A-Center, Inc., dated May 19, 2004 (Incorporated herein by reference to Exhibit 3.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
3.3	Amended and Restated Bylaws of Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 3.(ii) to the registrant's Current Report on Form 8-K dated as of September 20, 2005.)
4.1	Form of Certificate evidencing Common Stock (Incorporated herein by reference to Exhibit 4.1 to the registrant's Registration Statement on Form S-4/A filed on January 13, 1999.)
4.2	Certificate of Elimination of Series A Preferred Stock (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.)
4.3	Certificate of Designations, Preferences and relative Rights and Limitations of Series C Preferred Stock of Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 4.4 to the registrant's Registration Statement on Form S-4 filed July 11, 2003.)
4.4	Form of Certificate evidencing Series C Preferred Stock (Incorporated herein by reference to Exhibit 4.5 to the registrant's Registration Statement on Form S-4 filed July 11, 2003.)
4.5	Certificate of Elimination of Series C Preferred Stock (Incorporated herein by reference to Exhibit 3.(i) to the registrant's Current Report on Form 8-K dated as of September 20, 2005.)
4.6	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 (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.)
4.7	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 (Incorporated herein by reference to Exhibit 4.6 to the registrant's Annual Report on Form 10-K/A for the year ended December 31, 2003.)
4.8	Second Supplemental Indenture, dated as of April 26, 2004, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.)
4.9	Third Supplemental Indenture, dated as of May 7, 2004, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.8 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
4.10	Fourth Supplemental Indenture, dated as of May 14, 2004, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.9 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)

4.11	Fifth Supplemental Indenture, dated as of June 30, 2005, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.10 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.)

RENT-A-CENTER, INC. AND SUBSIDIARIES

Exhibit No.	Description
4.12	Form of 2003 Exchange Note (Incorporated herein by reference to Exhibit 4.11 to the registrant's Registration Statement on Form S-4 filed July 11, 2003.)
10.1+	Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (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.)
10.2	Amended and Restated Credit Agreement, dated as of May 28, 2003, as amended and restated as of July 14, 2004, among Rent-A-Center, Inc., the several lenders from time to time parties thereto, Calyon New York Branch, SunTrust Bank and Union Bank of California, N.A., as Documentation Agents, Lehman Commercial Paper Inc., as Syndication Agent, and JPMorgan Chase Bank, as Administrative Agent (Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated July 15, 2004.)
10.3	Amended and Restated Guarantee and Collateral Agreement, dated as of May 28, 2003, as amended and restated as of July 14, 2004, made by Rent-A-Center, Inc. and certain of its Subsidiaries in favor of JPMorgan Chase Bank, as Administrative Agent (Incorporated herein by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K dated July 15, 2004.)
10.4	Fifth Amended and Restated Stockholders Agreement, dated as of August 13, 2004, 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 (Incorporated herein by reference to Exhibit 10.3 to the registrant's Registration Statement on Form S-3/A filed on September 21, 2004.)
10.5	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. (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.)
10.6	Supplemental Letter Agreement to Franchisee Financing Agreement, dated May 26, 2003, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 10.23 to the registrant's Registration Statement on Form S-4 filed July 11, 2003.)
10.7*	First Amendment to Franchisee Financing Agreement, dated August 30, 2005, by and among Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center East, Inc.
10.8	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. (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.)
10.9	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. (Incorporated herein by reference to Exhibit 10.23 to the registrant's Annual Report on Form 10-K/A for the year ended December 31, 2003.)
10.10	Second Amendment to Amended and Restated Franchisee Financing Agreement, dated as of March 1, 2004, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.24 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.)
10.11+	Form of Stock Option Agreement issuable to Directors pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.)
10.12+	Form of Stock Option Agreement issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.21 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.)
10.13+	Summary of Director Compensation (Incorporated herein by reference to Exhibit 10.22 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.)
10.14+	Summary of Named Executive Officer Compensation (Incorporated herein by reference to Exhibit 10.23 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.)
21.1	Subsidiaries of Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 21.1 to the registrant's Quarterly Report on

Form 10-Q for the quarter ended June 30, 2005.)

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

RENT-A-CENTER, INC. AND SUBSIDIARIES

Exhibit No.	Description
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

\+ Management contract or compensatory plan or arrangement

* Filed herewith.

Exhibit 10.7

FIRST AMENDMENT TO FRANCHISEE FINANCING AGREEMENT

This First Amendment to Franchisee Financing Agreement ("Amendment") is made and entered into by and among Texas Capital Bank, National Association ("Lender"), ColorTyme, Inc., a Texas corporation ("ColorTyme"), and Rent-A-Center East, Inc., a Delaware corporation formerly known as Rent-A-Center, Inc. ("RAC").

RECITALS

A. Lender, ColorTyme and RAC entered into that certain Franchisee Financing Agreement dated April 30, 2002 (as the same has been amended, modified, restated or supplemented from time to time, 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. Amendment to Recital A. Effective as of the date hereof, paragraph A of the Recitals of the Agreement is hereby amended and restated to read in its entirety as follows:

> *A. ColorTyme is a franchisor of "rent-to-own" stores (each such store is referred to herein as an "RTO Store") operated by franchisees licensed by ColorTyme (each such franchisee is herein referred to individually as a "Franchisee" and collectively as the "Franchisees"), offering various home entertainment equipment, household equipment, and consumer products and parts, accessories, and other goods used in connection therewith (all such goods are referred to herein as "Inventory"), and certain Franchisees may open new stores for the origination and/or processing of payday loans and the other services incident to the foregoing (each such store is referred to herein as a "PayDay Store"). PayDay Stores may be located within existing RTO Stores or in separate locations attached to an RTO Store and owned and operated by a Franchisee (or its affiliate).*

3. Amendment to Recital B. Effective as of the date hereof, paragraph C of the Recitals of the Agreement is hereby amended and restated to read in its entirety as follows:

> *C. ColorTyme desires a source of financing for its Franchisees for the purposes described herein.*

4. Amendment to Article I. Effective as of the date hereof, Article I of the Agreement is hereby amended and restated to read in its entirety as follows:

Article I
Credit Facility

1.1 *Credit Facility. Bank shall provide a credit facility for Franchisees on the terms and subject to the conditions set forth in this Agreement. The amount of the credit facility shall be up to, but not in excess of, Twenty Million and No/100 Dollars ($20,000,000.00) in the aggregate; provided, however, that (i) up to, but not in excess of, Fifteen Million and No/100 Dollars ($15,000,000.00) of such credit facility may be utilized for Inventory Lines of Credit (as defined below) and/or RTO Term Loans (as defined below), and (ii) up to, but not in excess of, Five Million and No/100 Dollars ($5,000,000.00) of such credit facility may be utilized for Pay Day Lines of Credit (as defined below) and/or PDL Term Loans (as defined below). Bank will not finance any transaction or transactions which would cause the amount financed by Bank pursuant to this Agreement to exceed any of the limitations set forth in the preceding sentence. Each credit facility extended by Bank to a Franchisee shall be secured by a first priority security interest in (x) all of the Franchisee's inventory, goods, chattel paper, accounts, contract rights, documents, instruments, note receivables, franchise rights, and general intangibles (specifically including leases and rental contracts), (y) 100% of the stock or equity interest in such Franchisee, and (z) such additional collateral as Bank may require, and shall be fully guaranteed by each of such Franchisee's principal owners.*

5. Amendment to Article II. Effective as of the date hereof, Article II of the Agreement is amended and restated to read in its entirety as follows:

Article II
Credit Procedures, Terms and Administration

2.1 *Financing Procedures. The following procedures shall be employed in determining the availability of financing for Franchisees under this Agreement:*

(a) *In the event a Franchisee shall indicate an interest in obtaining financing for any of the purposes described in Section 2.5, ColorTyme shall provide the Franchisee with a credit application and other credit documentation, to be developed by Bank and approved by ColorTyme, and shall assist the Franchisee in completing such credit application and other credit documents.*

(b) *After the Franchisee has completed the credit application and provided the other credit documents specified by Bank, if such credit application and other credit documents are acceptable to ColorTyme, ColorTyme shall promptly forward the executed credit application and other credit documents to Bank at its office in Dallas, Texas or any other such location Bank may designate in writing to ColorTyme.*

(c) *If, following completion of its review of such credit application and other credit documents and its credit investigation, Bank determines that it will provide the financing requested, it shall so notify the Franchisee and ColorTyme and, upon receipt of such additional closing documents and satisfaction of such* *closing conditions as Bank determines to be necessary for the approval and documentation of the credit in its sole discretion, Bank shall establish one or more of the following: (i) a revolving line of credit for the Franchisee in accordance with the terms of this Agreement for such Franchisee's acquisition of Inventory and/or such Franchisee's acquisition or conversion of an RTO Store (an "Inventory Line of Credit"), (ii) a revolving line of credit for the Franchisee in accordance with the terms of this Agreement for such Franchisee's funding or extension of payday loans (a "PayDay Line of Credit"), (iii) a term loan facility for such Franchisee's acquisition of Inventory and/or such Franchisee's acquisition or conversion of an RTO Store (an "RTO Term Loan"), and/or (iv) a term loan facility for such Franchisee in order to build and equip a PayDay Store (a "PDL Term Loan"). For purposes of this Agreement, the resulting obligation of a Franchisee to Bank pursuant to any of the credit facilities described above is referred to as a "Receivable".*

2.2 *Interest Rates. Unless otherwise agreed in writing by Bank and ColorTyme, the interest rate on each Receivable shall be in accordance with the following schedule: (i) for each Inventory Line of Credit with a Credit Limit (as that term is hereinafter defined) of $1,000,000 or less, the rate will be the Prime Rate plus 3.75%; (ii) for each Inventory Line of Credit with a Credit Limit of more than $1,000,000, the rate will be the Prime Rate plus 2.75%; (iii) for each RTO Term Loan, the rate will be the same as the rate applicable to the Franchisee's Inventory Line of Credit on the date of such RTO Term Loan; (iv) for each PayDay Line of Credit, the rate will be the Prime Rate plus 4.75%; and (v) for each PDL Term Loan, the rate will be the Prime Rate plus 4.75%. For purposes of this subparagraph, the term "Prime Rate" shall mean the "Wall Street Prime Rate" as announced and published and so designated in the Money Rates Section of the Wall Street Journal (Southwest Region), as such rates may change from time to time, ColorTyme hereby acknowledging that the "Wall Street Prime Rate" may not be the lowest rate offered by Bank to its customers. If such Prime Rate shall cease to be published or is published infrequently or sporadically, then the Prime Rate shall be determined by reference to another Prime Rate or similar lending rate index, generally accepted on a national basis, as selected by Bank in its sole and absolute discretion. Fluctuations in the Prime Rate shall become effective on the last business day of the calendar month during which such changes in the Prime Rate occur. Interest will be calculated on the basis of a 360-day year.*

2.3 *Credit Limits. Upon approval of an application for financing submitted by or on behalf of a Franchisee pursuant to this Agreement, Bank shall establish a credit limit for such Franchisee in an amount agreed upon from time to time by Bank, ColorTyme and such Franchisee (the credit limit established for each Franchisee with respect to any credit facility extended to such Franchisee is referred to herein as a "Credit Limit"). The amount of any Credit Limit may be adjusted from time to time upon written agreement by Bank, ColorTyme and such Franchisee. It is contemplated that (i) the Credit Limit for PayDay Lines of Credit will not exceed $85,000, and (ii) the Credit Limit for PDL Term Loans will not exceed $15,000 (provided that exceptions to this general rule may be agreed to by ColorTyme and Bank from time to time in their sole and absolute discretion).*

2.4 Advance Limits.

(a) Advance Limits for RTO Stores. *Notwithstanding the amount of the Franchisee's applicable Credit Limit(s), the total amount of credit available under a Franchisee's Inventory Line of Credit and RTO Term Loan (collectively, the "RTO Receivables") shall be limited to the product of the Franchisee's Average Monthly Revenue multiplied by five (such advance limit established for each Franchisee is referred to herein as its "RTO Advance Limit"). For purposes of this Agreement, a Franchisee's "Average Monthly Revenue" shall mean the average monthly total revenue (exclusive of sales tax and any fees or other income directly attributable to a PayDay Store) of the Franchisee from the sale, lease or rental of Inventory and other fees, calculated in accordance with generally accepted accounting principles applied on a consistent basis, for the three (3) calendar months preceding the most recent review of such Franchisee's RTO Receivables. Notwithstanding anything in this section to the contrary, if the RTO Advance Limit established pursuant to this section would otherwise be an amount that is less than the then outstanding balance of such RTO Receivables (each such RTO Receivable is referred to herein as an "Overline Receivable"), the RTO 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 Bank and ColorTyme agree otherwise. The provisions of this section shall not apply to any RTO Receivable until the RTO Store for which the financing was provided under the RTO Receivable has been open for business for one (1) year.*

(b) *Notwithstanding the amount of the Franchisee's applicable Credit Limit(s), the amount of credit available under a Franchisee's PayDay Line of Credit shall be limited to the product of the Franchisee's Applicable PDL Ratio (as defined below) multiplied by its PDL Balance at the end of the immediately preceding month (such advance limit established for such Franchisee is referred to herein as its "PDL Advance Limit"). For purposes of this Agreement, (i) a Franchisee's "Applicable PDL Ratio" shall mean, as applicable, a percentage equal to, 100% during the first six-month period following the initial extension of credit under a PayDay Line of Credit, 90% during the second six-month period following the initial extension of credit under a PayDay Line of Credit, 80% during the third six-month period following the initial extension of credit under a PayDay Line of Credit, 70% during the fourth six-month period following the initial extension of credit under a Pay Day Line of Credit, 70% during the fifth six-month period following the initial extension of credit under a Pay Day Line of Credit, 70% during the sixth six-month period following the initial extension of credit under a Pay Day Line of Credit, and 50% at any time thereafter, provided, that Pay Day Lines of Credit shall mature and be fully due and payable thirty-six (36) months following the initial extension of credit thereunder (unless the maturity thereof is extended with the written consent of both Bank and ColorTyme), (ii) a Franchisee's "PDL Balance" shall mean, as of any date of determination, the outstanding principal balance of all of its Eligible PayDay Loans (as defined below), plus the amount of fees incurred and payable* *thereunder, and (iii) the term "Eligible PayDay Loans" means, with respect to a Franchisee, each payday loan owing by a borrower thereunder (each such borrower hereinafter referred to as a "PayDay Borrower") to such Franchisee which meets the following requirements at the time it comes into existence and continues to meet the same until such payday loan is paid in full:*

(1) *it is a valid, legally enforceable and unconditional obligation of such PayDay Borrower;*

(2) *it is evidenced by credit documents subject to a security interest in favor of Bank and conspicuously stamped with a notation indicating such documents have been collaterally assigned by the Franchisee to Bank, such notation to be similar in form to "COLLATERALLY ASSIGNED TO TEXAS CAPITAL BANK AND/OR ITS SUCCESSORS OR ASSIGNS"; and*

(3) *it has not remained unpaid more than 30 days after the maturity date thereof.*

2.5 *Use of Proceeds. Bank will advance funds to or on behalf of a Franchisee pursuant to this Agreement only for: (i) in the case of such Franchisee's Inventory Line of Credit and/or RTO Term Loan, (1) such Franchisee's acquisition of Inventory and/or (2) such Franchisee's acquisition or conversion of an RTO Store, (ii) in the case of such Franchisee's PayDay Line of Credit, such Franchisee's funding or extension of payday loans and/or the opening of a PayDay Store and the other services incident to the foregoing, or (iii) in the case of such Franchisee's PDL Term Loan, such Franchisee's funding of the costs associated with the build out and equipping of a PayDay Store (to include such items as a CCTV system, safe, computer, computer printer, exterior signage and approved construction costs).*

(a) *Inventory. Advances under the Inventory Line of Credit or RTO Term Loan for Inventory will be limited to the lesser of (i) the cost of the Inventory acquired by the Franchisee; (ii) the amount of the Franchisee's applicable Credit Limit; or (iii) the amount of the Franchisee's RTO Advance Limit.*

(b) *Store Acquisitions and Conversions. Advances under the Inventory Line of Credit or RTO Term Loan for RTO Store acquisitions and/or conversions (i.e., the acquisition of existing RTO Stores and/or the acquisition of other "rent-to-own" stores for conversion to "ColorTyme" RTO Stores) will be limited to the lesser of (i) in the case of an RTO Store that has been open for business (either as a "ColorTyme" RTO Store or as another "rent-to-own" store) for one (1) year or more, the product of the Average Monthly Revenue, as defined in Section 2.4, of the individual RTO Store multiplied by nine (9); (ii) the amount that would cause the Debt-to-Revenue Ratio for the Franchisee to equal or exceed 5:1; (iii) except in the case of advances pursuant to an RTO Term Loan, the amount of the Franchisee's applicable Credit Limit; and (iv) the amount of the Franchisee's RTO Advance Limit. For purposes of this paragraph, "Debt-to-*

Revenue Ratio" shall mean the ratio of (x) Funded Debt to (y) the Average Monthly Revenue, as defined in Section 2.4 of the Franchisee (calculated on an aggregate basis for all RTO Stores owned and/or operated by such Franchisee and any and all affiliates of such Franchisee); and "Funded Debt" shall mean, as of any date, the total amount of any 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. Financing for RTO Store acquisitions and/or conversions will be made available only to Franchisees that are, at the time, already indebted to Bank under a Receivable.

(c) *PayDay Stores. Advances under the PayDay Line of Credit will be limited to the lesser of (i) the amount of the Franchisee's applicable Credit Limit; or (ii) the amount of the Franchisee's PDL Advance Limit. All advances under the PayDay Line of Credit or a PDL Term Loan will be made available to the Franchisee only upon prior written authorization from ColorTyme, and such advances will be wired directly to the Franchisee.*

For purposes of this section, Bank may rely fully on the representations and/or agreements of the Franchisee with respect to the use of funds, with no obligation to independently verify such information. The use of any such funds by a Franchisee for any purpose not permitted by this section will not affect the obligations of ColorTyme or Guarantor under this Agreement.

2.6 *Payment Terms. Each Receivable will be repayable as follows:*

(a) *In the case of the Inventory Line of Credit, (i) accrued and unpaid interest shall be payable monthly, and (ii) principal shall be payable in monthly installments as determined in accordance with Addendum A attached hereto and made a part hereof, as such Addendum A may be modified from time to time by the parties to this Agreement. In addition, at the option of Bank or ColorTyme, a mandatory principal payment shall be made on any Inventory Line of Credit that is an Overline Receivable (at any time following the initial month in which such Overline Receivable was first determined to exist) to the minimum extent necessary to cause the amount of the RTO Receivables to no longer exceed the RTO Advance Limit.*

(b) *In the case of an RTO Term Loan, (i) accrued and unpaid interest shall be payable monthly, and (ii) principal shall be payable in equal monthly installments over the term of the RTO Term Loan, with the monthly principal installment to equal the amount of the RTO Term Loan divided by the number of months in the term thereof. In addition, at the option of Bank or ColorTyme, a mandatory principal payment shall be made on any RTO Term Loan that is an Overline Receivable (at any time following the initial month in which such Overline Receivable was first determined to exist) to the minimum extent necessary to cause the amount of the RTO Receivables to no longer exceed the RTO Advance Limit.*

(c) *In the case of the PayDay Line of Credit, (i) accrued and unpaid interest shall be payable monthly, (ii) mandatory principal payments shall be made in such amounts as may be necessary to ensure that the outstanding principal balance under the PayDay Line of Credit does not exceed the PDL Advance Limit (any such mandatory principal payments are to be made within one (1) business day following the determination thereof), and (iii) all principal and accrued and unpaid interest shall be fully and finally due and payable 36 months from the initial extension of credit under such Pay Day Line of Credit, or upon the earlier maturity thereof, whether by acceleration or otherwise.*

(d) *In the case of a PDL Term Loan, (i) accrued and unpaid interests shall be payable monthly, (ii) principal shall be payable in equal monthly installments over a period equal to the lesser of (A) 36 months, or (B) the remaining term of any lease of the space for the applicable PayDay Store, with the monthly principal installment to equal the amount of the PDL Term Loan divided by the number of months in the term thereof, and (iii) all principal and accrued and unpaid interest shall be fully and finally due and payable 36 months from the initial extension of credit under such PDL Term Loan, or upon the earlier maturity thereof, whether by acceleration or otherwise.*

2.7 <u>Suspension of Advances</u>.

(a) *Advances may, at Bank's option, be suspended or limited under any RTO Receivable drawn to an amount greater than the product of the Franchisee's Average Monthly Revenue multiplied by four (4) where (i) the ratio of cash expenses (total annual expenses, less depreciation directly related to the operation of the Franchisee's RTO Store(s), calculated in accordance with generally accepted accounting principles applied on a consistent basis) to total revenue attributable to the Franchisee's RTO 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 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; (iii) expenses of an RTO Store that has been open for business for less than twelve (12) months exceed the proforma cash flow projections as a percent of revenue for that RTO Store; (iv) payments (principal and/or interest) under any RTO Receivable of the Franchisee are more than fifteen (15) days past due; (v) the Franchisee fails to submit a copy of the ColorTyme Royalty report to Bank within 15 days following the end of the month; (vi) Franchisee fails to submit a copy of the current financial statement within 45 days following the end of each business month; or (vii) in Bank's determination, the RTO Receivable is otherwise in default.*

(b) <u>*PayDay Stores*</u>*. Advances may, at Bank's option (or at ColorTyme's direction), be suspended or limited under any PayDay Line of Credit or PDL term Loan (in each case, "*<u>*PDL Receivable*</u>*") where (i) the Franchisee either fails to submit a detailed report evidencing its compliance with*

Section 2.14 within 30 days following the end of each business month or fails to comply with the PayDay Store Collection Rate for any PayDay Store for a period of two (2) months or more; (ii) with respect to a PayDay Line of Credit, the Franchisee fails to submit a borrowing base report to Bank within 30 days following the end of each business month; (iii) the guarantor(s) of the Franchisee's PayDay Line of Credit fails to submit a copy of such guarantor's annual financial statement (including without limitation, details on contingent liabilities and cash flow) and federal (and state, if applicable) income tax return for such guarantor within 45 days following the end of such calendar year; or (iv) in Bank's determination, the PDL Receivable is otherwise in default.

2.8 *Financing Terms and Credit Standards. The specific terms of any financing provided by Bank to Franchisees under this Agreement shall be determined from time to time by Bank in accordance with its ordinary and customary business practices. The credit standards for approval of any financing provided by Bank to Franchisees under this Agreement shall be determined from time to time by Bank and ColorTyme; provided, however, the application of such credit standards to particular transactions shall be at Bank's sole discretion.*

2.9 *Credit Approval. Nothing herein shall obligate Bank to accept or approve any application for financing submitted by or on behalf of any Franchisee. Bank may, in its discretion, reject or decline any application for financing submitted by or on behalf of any Franchisee; provided, if Bank rejects or declines any such application, it shall inform ColorTyme and the Franchisee of the reasons therefor.*

2.10 *Collection Procedures. Bank shall use its ordinary and customary practices and procedures to collect outstanding Receivables, subject to the provisions of this Agreement.*

2.11 *Modification of Receivables. Notwithstanding anything in this Agreement to the contrary, Bank reserves the right to make such modifications, adjustments and/or revisions to any Receivables, including the Credit Limits, payment terms and conditions for advances thereunder, as it deems necessary or appropriate under the circumstances, provided it may not, without the written consent of ColorTyme, increase the Credit Limits above the amounts agreed to by ColorTyme pursuant to Section 2.3. Provided Bank shall not have previously given ColorTyme notice of default with respect to a Receivable pursuant to Section 4.1, Bank may at any time, at its discretion, amend payment schedules, defer payments or otherwise modify the terms of any such Receivable, without in any way affecting the obligations of ColorTyme or the Guarantor under this Agreement.*

2.12 *Payments to ColorTyme. Bank shall pay to ColorTyme, from the interest portion of each payment received by Bank on account of each Receivable, an amount calculated by multiplying the amount of each such interest payment by a fraction, the denominator of which is the rate of interest applicable to such Receivable and the numerator of which is determined on the following scale: (i) with respect to an Inventory Line of Credit and/or RTO Term Loan, 2.00% if the Franchisee's aggregate Credit Limit* *for such credit facilities is $1,000,000 or less; (ii) with respect to an Inventory Line of Credit and/or RTO Term Loan, 1.50% if the Franchisee's aggregate Credit Limit for such credit facilities is greater than $1,000,000; or (iii) with respect to a PayDay Line of Credit and/or PDL Term Loan, 2.00%. The amounts payable pursuant to this section shall be payable on a monthly basis. The credit documentation between Bank and any Franchisee shall expressly provide for the payment of such amount to ColorTyme and shall acknowledge that such amount constitutes a fee payable by such Franchisee to ColorTyme that is fully earned and non-refundable upon each payment thereof.*

2.13 *Field Exams. With respect to any PayDay Stores, Bank may conduct, at the Bank's sole discretion, periodic field exams at the Franchisee's expense; provided however, so long as no event of default has occurred and is continuing under any PDL Receivable, the Franchisee will not be required to pay more than $500 per PayDay Store during any calendar year for any such field exams.*

2.14 *PayDay Loan Collections. Any Franchisee with a PayDay Line of Credit shall maintain a PayDay Collection Rate (as defined below) for each PayDay Store of at least 90%, determined as of the end of each month. For purposes of this Agreement, the term "PayDay Store Collection Rate" shall mean, as of any date of determination, a ratio determined by dividing a PayDay Store's Collected Cash (as defined below) by its Available Cash. For purposes of this Agreement, (i) the term "Collected Cash" shall mean, for any month, the sum of payday loan principal collected during such month, plus payday loan fees collected during such month, plus paydown amounts collected during such month, plus returned checks collected during such month, and (ii) the term "Available Cash" shall mean, for any month, the sum of Collected Cash during such month, plus payday loan refunds received during such month, plus payday loan discounts received during such month, plus past due open (non-deposited) payday loan amounts as of the last day of the month, plus the net due amount of all returned checks as of the last day of the month, plus any payday loan or returned check charged off as uncollectible during the month.*

2.15 *Identity of Franchisee. Bank shall not extend to any Franchisee a PayDay Line of Credit if such Franchisee has obtained any similar financing from any third party lender for the purpose of financing the making of payday loans.*

6. Amendment to Article IV. Effective as of the date hereof, Article IV of the Agreement is hereby amended and restated to read in its entirety as follows:

ARTICLE IV
Receivable Defaults

4.1 Notice of Default. In the event any payments due under any of the Receivables are delinquent by more than ninety (90) days, in the case of RTO Receivables, or thirty (30) days, in the case of PDL Receivables, or Bank otherwise declares a default under any of the Receivables, Bank shall give notice thereof to ColorTyme and the Guarantor.

4.2 Foreclosure. Following notice of a default under a Receivable pursuant to Section 4.1, Bank shall, at its expense, attempt to collect the outstanding obligations under the Receivable (including making demand therefore from the appropriate debtor(s) and other persons) and, if necessary, in the case of RTO Receivables, commence appropriate legal actions to recover the collateral securing such Receivable and to foreclose the interest of the account debtor(s) and other persons, if any, in such collateral.

4.3 Assignment. Following either (i) in the case of RTO Receivables, the Bank securing possession of the defaulted Receivable or the entry by a court of competent jurisdiction of an order staying or barring such actions or adjudicating the rights of Bank with respect to such collateral, or (ii) in the case of PDL Receivables, the notices and demands contemplated by Sections 4.1 and 4.2 above have been given or made, Bank may, at its option, sell its interest in any collateral and the defaulted Receivable secured thereby to ColorTyme, without recourse or warranty of any kind whatsoever, and ColorTyme shall within five (5) business days, proceed to purchase Bank's interest in such collateral and the defaulted Receivable. Contemporaneously with such assignment, ColorTyme shall pay to Bank an amount ("Repayment Amount") equal to the outstanding principal balance of plus accrued, unpaid interest on such Receivable.

7. Amendment to Section 7.1. Effective as of the date hereof, Section 7.1 of the Agreement is hereby amended and restated to read in its entirety as follows:

7.1 Expenses. Each party hereto shall pay and be responsible for its own expenses incurred in connection with this Agreement and the transactions herein contemplated; provided, however, ColorTyme and the Guarantor shall reimburse Bank for all of its reasonable out-of-pocket expenses, including the reasonable fees and expenses of its legal counsel, incurred in connection with (a) the negotiation and preparation of this Agreement and the transactions contemplated by this Agreement, (b) with respect to each PayDay Line of Credit established for a Franchisee, up to a maximum of Five Hundred Dollars ($500) for the establishment of such PayDay Line of Credit, (c) the enforcement and collection of Receivables that default, up to a maximum of One Thousand Dollars ($1,000) for each such default, and (d) the enforcement or preservation of Bank's rights under this Agreement following an Event of Default. All such expenses shall be paid promptly upon request by Bank.

8. Amendment to Addendum A. Effective as of the date hereof, all references to "Addendum A" in the Agreement will be deemed to be references to the "Addendum A" attached hereto as Addendum A.

9. Effect of Amendment. Except as amended hereby, the Agreement shall remain in full force and effect.

10. Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE SUBSTANTIVE LAWS OF THE STATE OF TEXAS (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW).

11. 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. Signatures hereby transmitted by facsimile or other electronic means shall be effective as originals.

[Remainder of Page Intentionally Left Blank. Signature Page Follows.]

IN WITNESS WHEREOF, the parties have executed this Amendment on this 30th day of August, 2005.

COLORTYME, INC.

By: /s/Robert F. Bloom
Robert F. Bloom
President and Chief Executive Officer

RENT-A-CENTER EAST, INC.

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

TEXAS CAPITAL BANK, NATIONAL ASSOCIATION

By: /s/W. Reed Alton
W. Reed Alton
Executive Vice President

ADDENDUM A

Payment Terms

For purposes of Paragraph 2.6(a) of the Franchisee Financing Agreement (as amended, the "Agreement"), dated April 30, 2002, by and between Texas Capital Bank, National Association, ColorTyme, Inc., and Rent-A-Center East, Inc., the amount of the monthly principal installment for an Inventory Line of Credit shall be calculated based upon the multiple of the Franchisee's Average Monthly Revenue to the principal balance of the Inventory Line of Credit and any other indebtedness owed by Franchisee to Bank as of the end of the prior calendar month and shall be payable as follows:

Total Debt of Stores open more than one year as a Multiple of Average Monthly Revenue of Stores open more than one year	Monthly Principal Payment
3.99 x or less	6.0% of principal balance
4.00 x — 4.49 x	6.5% of principal balance
4.50 x — 4.99 x	7.0% of principal balance
5.00 x or more	8.0% of principal balance or such greater amount as may be determined by Bank in its reasonable sole discretion

Capitalized terms shall have the meanings set forth in the Agreement.

Exhibit 31.1

I, Mark E. Speese, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting, to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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: October 28, 2005

/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 quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting, to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) 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: October 28, 2005

/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 Quarterly Report of Rent-A-Center, Inc. (the "***Company***") on Form 10-Q for the period ended September 30, 2005, 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: October 28, 2005

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 Quarterly Report of Rent-A-Center, Inc. (the "***Company***") on Form 10-Q for the period ended September 30, 2005, 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: October 28, 2005

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.